Ontario

Report of the Royal Commission on the Status of Pensions in Ontario

VOLUME I

Design for Retirement

1980

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Design for Retirement

Volume I Volume II Volume III	Government programs and employer sponsored pensions
Volume IV	*Your Income in Retirement* (a Consumer's Guide)

Ontario and the Canada Pension Plan

Volume V

Pensions for Ontario Public Sector Employees

Volume VI
Volume VII

Background Studies and Papers

Volume VIII
Volume IX

Summary Report: A Plan for the Future

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Design for Retirement

The Royal Commission on the Status of Pensions in Ontario

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Charles McDonald
Walter G. Upshall

Counsel
Marie Corbett

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Ontario

Royal Commission
on the
Status of Pensions
in Ontario

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To The Lieutenant-Governor
Of the Province of Ontario

May it please Your Honour:

By Order-in-Council, O.C. 1098/77 dated the 20th day of April A.D. 1977, the Royal Commission on the Status of Pensions in Ontario was charged

1. To study the impact on the economy of different systems of financing retirement pension plans and arrangements including Ontario's financing and investment role in the Canada Pension Plan.

2. To examine the terms and conditions of existing retirement pension plans and arrangements, to evaluate their effectiveness in terms of present social and economic circumstances, and to study the interrelationships among the private sector plans, the Canada Pension Plan and public employee pension plans.

3. To make such recommendations in relation to the above as the Commission deems appropriate.

The Commission has completed its work and presents its report for consideration as follows:

<u>Design for Retirement</u>

Volumes I, II, and III
A study of retirement income from
government and private sources

<u>Your Income in Retirement</u>

Volume IV
A consumer's guide

Ontario and the Canada Pension Plan

Volume V

Pensions for Ontario Public Sector Employees

Volumes VI and VII

Background Studies and Papers

Volumes VIII and IX

Summary Report: A Plan for the Future

Respectfully submitted,

Donna J. Haley, Q.C.
Chairman

Alfred H. Cordell

Charles McDonald

Donald G.M. Coxe

Walter G. Upshall

Commissioners

October, 1980

Foreword

The Royal Commission on the Status of Pensions in Ontario was established on April 20, 1977 by the Ontario Government under the Public Inquiries Act. The Commission was required by its terms of reference:

1. To study the impact on the economy of different systems of financing retirement pension plans and arrangements including Ontario's financing and investment role in the Canada Pension Plan.

2. To examine the terms and conditions of existing retirement pension plans and arrangements, to evaluate their effectiveness in terms of present social and economic circumstances, and to study the interrelationships among the private sector plans, the Canada Pension Plan, and public employee pension plans.

3. To make such recommendations in relation to the above as the Commission deems appropriate.

Five members were appointed to the Commission. Their diversity of background and experience reflects the many-sided nature of this inquiry. The Chairman, Donna J. Haley, Q.C., practises law in Toronto and, since 1974, has been Chairman of the Pension Commission of Ontario. She also served as a member of the Task Force on Employee Benefits, which in 1974 advised the Ontario Ministry of Labour on amendments to the Employment Standards Act.

Alfred H. Cordell, of London, a chartered accountant, is Vice-President in charge of Public Affairs and Marketing Services for 3M Canada Inc. He was previously chief financial officer of the company and was involved in the work of the Financial Executives Institute on Pensions. Donald G.M. Coxe, of Guelph, is a lawyer and Senior Vice-President of Mu-Cana Investment Counselling Ltd.; he is also a former member of the Canada Pension Plan Advisory Committee. Charles McDonald, of Windsor, recently retired as Director of the Retired Workers and Community Service Department of the United Auto Workers' Union; he served previously as President of his UAW local union. Mr. McDonald is

currently President of the National Pensioners and Senior Citizens Federation. He was appointed to the Commission to replace Mr. Terry Meagher, Secretary-Treasurer of the Ontario Federation of Labour, who resigned in January, 1978. Walter G. Upshall, Toronto, retired from the T. Eaton Company Limited having served as both personnel manager and credit manager, and now operates his own investment counselling business. He has served as a member of the Ontario Advisory Council on Senior Citizens.

The Commission therefore had strong voices, not only from management and labour but also from the three major consumer categories: the employed, the self-employed, and the retired. Its members also brought to bear certain relevant financial, legal, and social skills. This combination of experience and perspectives was indispensable to the Commission's understanding of pension issues.

Such a diversity of viewpoints admittedly made for lengthy deliberations. Nevertheless, the Commission felt obliged to explore every avenue towards consensus within its own membership. That consensus has emerged, not without difficulty, but as the ultimate product of a common concern for the social and economic objectives involved. A remarkable degree of unanimity was achieved by the Commission which gives hope for the resolution of the issues in the larger arena of public policy making.

Because of its considerable size, this report will be read in its entirety by only a few; others may find only a few sections relevant to their particular interests. It is the hope of the Commission, however, that the main thrust of its conclusions will stand out clearly from the detailed analysis. The following three points, in the opinion of the Commission, constitute the essence of its thinking at the close of its deliberations:

- There is a need for a retirement income system which will rationalize government, employer, and individual plans for retirement income. The starting point for such a system must be the individual; only then will it be possible to determine what roles are appropriate for governments, employers, and other organizations. We have noted throughout the report the patchwork effect of unco-ordinated initiatives which result in unequal treatment for those in retirement and waste of our resources.

- Individual planning for retirement income starts with information about the components of that income. Without full and accurate information, no individual can be expected to judge how much should be saved from current consumption or in what

way savings should be used to achieve the desired objective at retirement age and afterward. Disclosure of all relevant information therefore is essential, not only for individual arrangements such as RRSPs and annuities, but also for the more complex group plans: employment pensions and the Canada Pension Plan. Only when the individual is well-informed is it realistic to speak of measures to expand the area of individual choice in providing for retirement income. This provision is equally true whether the freedom to choose is exercised in a purely personal way, for example in deciding how to use one's own savings; through a particular group, as in making one's preference known for a type of employment pension plan; or as a voter, in supporting a political party on the basis of the social programs it has implemented or promises to introduce.

- In the interest of equity in every aspect of an overall system, cost-benefit relationships must be recognized, in both the design of a particular plan and the interrelationship of that plan and other components of the system. Planning must take into account long-run as well as short-run costs, so that each generation will know that its contribution and benefits are fair in relation to those of succeeding generations. Short-run solutions must be avoided if they are likely to jeopardize the right of tomorrow's workers and taxpayers to economic security before or after they retire.

ACKNOWLEDGEMENTS

The Commission is indebted to many for the ready assistance given to it in its undertaking. Throughout, the Commission has found pension regulatory authorities, ministries, and agencies of government at all levels, members of the actuarial profession and representatives of the pension industry ever ready to respond to the needs and questions of the Commission. Particularly are we indebted to J. Wells Bentley, Superintendent of Pensions for Ontario; Richard Humphrys, Superintendent of Insurance, Ottawa; David Stouffer and John Ilkiw, Ministry of Treasury and Economics, Ontario; Elizabeth Aboud, Benefits Policy Branch, Civil Service Commission of Ontario; Frank Nacsa, Ministry of Revenue, Ontario; Leonard Haywood, Ministry of Labour, Ontario; Peter Clendinneng, Ministry of the Attorney General, Ontario; Harvey Lazar, Department of Justice, Ottawa; Dr. Peter Cornell, The Economic Council of Canada; Health and Welfare Canada; Statistics Canada; Dudley Funnell, Tomenson-Alexander Associates Limited; Geoffrey Calvert; R.A. Field, The Wyatt Company; D.D. Ezra, James P. Marshall Inc.; Tristram Lett, formerly of Ministry of Treasury and Economics; Frank Speed, The Canadian Life Insurance Association; Hope Holmested, Ontario Advisory Council on Senior Citizens; David Allin, Trust Companies Association of Canada; Daniel Horigan, Canadian Federation of Independent Business; Dr. Ross Archibald, University of Western Ontario; J. Eric Ford, Clarkson Gordon;

William Rivers, Martin E. Segal Company; Kevin Collins, Canadian Labour Congress; Claude Poulin, United Auto Workers International Union.

The Commission's own consultants, who are listed individually in Volume IX of the report, have worked diligently with the Commission from the very early stages of the undertaking and have each contributed in a special way to the results of the Commission's work. Special thanks are due to Laurence Coward and Keith Cooper for advising on the actuarial work undertaken for the Commission and the analysis of the results.

A small but very able staff has kept the work of the Commission going forward when it could well have been engulfed by the magnitude of the study. Each of them deserves to be mentioned by name: Ann C. Jamieson and Brian Borich, researchers; Michael Carr, shorthand reporter; Diane Nelles, Anna Dopta, Roswita Busskamp, editorial and production work; Flora McAfee, executive secretary; Laurel Murdoch, librarian; Diane Daly and Chet Chan, word processing and production.

Special acknowledgement must be given to the work done by Marie Corbett, Legal Counsel to the Commission, in co-ordinating the whole of the Commission's endeavour, and to Gordon Milling, the Editor, whose painstaking efforts and advice to the Commission have been fundamental to the ultimate publication of the report.

For co-operation from the public and interested parties on all sides, the Commission is grateful.

Donna J. Haley, Q.C.
Chairman

Introduction

As noted by the Premier, the Honourable William G. Davis, there were compelling reasons for initiating a Royal Commission on Pensions. In his announcement to the Ontario Legislature on April 20, 1977, the Premier made the following observations concerning the background and terms of reference of the inquiry:

> "During the past year, the private sector has encountered criticism for its apparent inability to provide adequate retirement pensions. Further, it has become obvious that private-sector pension plans find it financially difficult, under the existing institutional and legislative arrangements, to maintain the real value of pensions during periods of inflation. This fact, alongside fully indexed Canada Pension Plan and Old Age Security benefits and conspicuous fully indexed benefits of federal and provincial public-employee pensions plans, has caused some public dissatisfaction with private-sector pensions.
>
> "As a consequence, there has been widespread pressure to significantly expand the Canada Pension Plan at the cost of displacing private-sector pension plans. Such an expansion of the CPP under its present financial structure would result in a private-to-public shift of capital, increased intervention by government in an individual's consumption/savings decisions and a much larger transfer of income between the present generation and the next.
>
> "We are approaching a crossroads with respect to the financing of the Canada Pension Plan. The Ontario government welcomes views and suggestions as to the appropriate method for financing the CPP and what investment policies should be followed with respect to any surplus funds that are created. Similarly the Commission will solicit opinions on the future structure and investment role of public-sector employee pension plans.
>
> "Before Ontario embarks on any changes to its own pension legislation, or agrees to changes in the Canada Pension Plan, it is absolutely essential to know the economic impact of these changes.

Pensions involve social, political, and economic issues which are as complex as they are significant. The importance and complexity of the issues involved require the establishment of a Commission. The in-depth investigation of the Commission and its final recommendatons will provide the government of Ontario with much-needed information and will determine the direction in which pension policies should be pursued."

In setting out to fill the mandate it had received to pursue these matters, the Commission had the difficult task of adopting an analytical framework which, without over-simplification, would give us a systematic view of retirement income provisions. It was clear that a purely theoretical approach would be unproductive; we were not dealing with a simple commodity provided by a number of producers to a number of consumers, nor could we expect historical trends to yield a reliable indication of future developments if, as we suspected, we were not looking at a "system" at all. If a coherent system could be described - or created - it was necessary first to determine what components were already in place, in what respect they constituted a system, and to what extent they could be said to satisfy the needs of individuals and society as a whole. From the statement of the Premier it was obvious that we would find many present arrangements that were far from ideal, not excluding government-sponsored programs; and that we would hear a great many conflicting views concerning the nature of existing problems and how they might be resolved.

Apart from the fundamental question of what retirement arrangements are and how they work, there were a number of important public issues which cut across the lines of government, employer, and individual programs, and required attention at every stage of our investigation. There was the overriding problem of inflation: its impact on the living standards of the elderly, and its implications for those who are providing or would have to provide additional pension dollars to maintain people's purchasing power. There was the long-standing question of public versus private initiative in providing retirement income, especially in relation to the Canada Pension Plan, its benefit levels and method of funding. And there were constitutional questions: a provincially-appointed body, the Commission nevertheless could not disregard the many ways in which Ontario's economy and institutions are interrelated with those of the other provinces, or the fact that many of the issues to be examined were matters of federal or shared jurisdiction.

In planning its inquiry, the Commission was aware of the central role Ontario has played in the development of two major components of retirement income in Canada: the Canada Pension Plan and the regulation of employment pension plans. First of all, it is recognized that employment pension plans are essentially matters of provincial jurisdiction under the British North America Act. Accordingly, the Canada Pension Plan is a joint federal and provincial undertaking, with Quebec electing to establish its own parallel plan and Ontario, like any other

province, retaining the right to do likewise. An additional responsibility is borne by this province by virtue of its population: unlike any other single province, Ontario must give its approval before any amendment to the plan can go into effect. In the area of employment pension plans as well, Ontario has assumed a leading role. Even before the advent of the Canada Pension Plan this province had enacted legislation to require employers to provide pension plans for their employees. That feature of the Ontario Pension Benefits Act was removed in the later stages of negotiations for a national program; but the remaining provisions - those setting out vesting, solvency and other standards for employment pension plans - went into effect and constituted the first statute of its kind in North America. Since then Ontario has performed a leading role in developing uniformity of supervisory practices under reciprocal agreements with other jurisdictions: Quebec, Alberta, Saskatchewan, Nova Scotia, Manitoba, and the federal government.

With all these considerations in mind, the Commission felt obliged to examine, so far as possible, every source of retirement income in Ontario regardless of legislative jurisdiction and regardless of whether or not a particular aspect might be directly affected by government policies. This approach required, in addition to research projects and hearings, an effort to elicit from the public information and opinions that might not otherwise come to light.

In preparation for formal hearings the Commission placed advertisements in all daily newpapers in Ontario, and in the farm, country, and ethnic press, inviting the public to communicate its views in writing and by appearing at public hearings. In addition, invitations were sent to some three hundred persons and organizations, including ninety randomly selected major employers.

While the hearings were being organized, the Chairman approached or was approached by a number of groups with a known interest in retirement arrangements and therefore in a position to supply statistical or other information that might not be available from other sources, and requested that such information be included with any submission a group might wish to make to the Commission.

Public hearings were held in Toronto for seven weeks beginning February 7, 1978. Further sessions of one to three days were held in Windsor, London, Hamilton, Ottawa, Sudbury, Timmins, and Thunder Bay. In total, 391 written submissions were received, and more than 170 personal appearances were recorded. These are listed in Volume VIII. Individuals accounted for some 65 per cent of the responses. Others included labour organizations (34), professional and business organizations (30), senior citizens and pensioner groups (28), social organizations (21), businesses (12), financial institutions (10), and other public bodies (5). While most provincial and national organizations were located in Toronto or Ottawa, individual responses came from across the province.

A second and completely different contact with the public was made through the Consumer Survey, conducted for the Commission during the early autumn of 1978. This survey, carried out by Southam Marketing Research Services, attempted to determine the awareness of individuals in a representative cross-section of Ontario's population of various pension and retirement mechanisms, and to what extent their expectations had been or were likely to be met in their retirement years. Results of this project are cited according to topic throughout the report. The report of the survey is published in full in Volume VIII.

Concurrent with its program of hearings and the Consumer Survey the Commission began to engage consultants to carry out research assignments in areas which called for professional analysis of the economic, sociological and institutional factors involved. As work progressed it became necessary to add certain subjects to the original research program, usually in order to seek clarification of facts where public submissions revealed sharp differences in perception of important occurrences and trends. At several stages the Commission used the services of actuaries and accountants in the execution of technical tasks, such as the testing of alternative benefit arrangements.

Much of the research output is directly pertinent to one section or another of the report, and is therefore embodied in the text as required, and in the accompanying tables and figures. In addition, several project reports are reproduced in full, either as appendices in various volumes or as background papers in Volumes VIII and IX.

Format of the Report

In organizing its report the Commission was mindful of the likely needs of various users: for a concise overview of pensions, a comprehensive guide to policy-making, or an in-depth treatment of a single program. The following outline indicates the way in which we felt it practicable not only to report fully on the matters referred to the Commission, but to do so in a form that would be as manageable as possible to the reader:

> In the first three volumes under the general heading "Design for Retirement," we review what is frequently thought of as the "pension system": how it has developed and by and for whom; what its components are and how they function; and what might be done to improve its adequacy and effectiveness. Also included in Volume III is a glossary of terms, an index for the three volumes, and a compilation of statistics for ready reference entitled "Selected Facts."
>
> Your Income in Retirement appears as Volume IV, in booklet format in order to facilitate a more general distribution than is feasible for the report as a whole. As the title suggests, this volume is a consumer's guide to retirement income arrangements in Ontario:

what benefits are available and how they may be obtained; and why pensions are significant even to those who are not yet approaching retirement age.

Volume V is devoted to an examination of the Canada Pension Plan: how it may be expected to perform in the future, and the long-run implications of its financing, especially for Ontario.

Ontario public sector employment pensions are described in detail in Volumes VI and VII, with special attention to questions of cost and accountability.

Volumes VIII and IX contain background papers not otherwise incorporated in the report.

A Summary Report has also been prepared containing an abbreviated commentary as well as the complete text of the Commission's recommendations.

Design for Retirement

Contents

Design for Retirement

Volume I

Contents

Chapter 1

Entering the 'Eighties

For the 1980s, the Commission sees changes in several broad areas which will affect the approach to retirement income planning. We see changes in the philosophical basis of pensions; a changing demographic complexion for Canada; a realignment of economic concerns, with far-reaching effects on choices between present and future consumption; and an increasing emphasis on equity among individuals and among groups in society.

These changes are already reflected in the pension debate and must be considered in any comprehensive report on the subject of retirement income.

CURRENT THINKING ON RETIREMENT INCOME

The provision of retirement income has become a shared responsibility of the government, the employer, and the individual. Government action through taxation for the Old Age Security program, which includes an income tested program for the elderly, the Guaranteed Income Supplement and Spouse's Allowance, has been accepted as part of the government's anti-poverty responsibility. The Canada Pension Plan, created by direct government legislation, is a form of social insurance in which today's workers pay the pensions of yesterday's workers in the expectation that tomorrow's workers will do the same for them. In the private sector, individuals contract with their employers for pensions paid for out of current earnings; or they make private arrangements according to how they perceive their retirement needs.

The way in which these three sources of retirement income should combine and interact will continue to be the subject matter of much debate. The adequacy of the guaranteed minimum for the elderly provided by OAS and GIS - with the Guaranteed Annual Income Supplement (GAINS) in

Ontario - became a major concern in the late 1970s with the public realization of the effects of steadily rising prices. The fact that the federal guarantees have been fully indexed to increases in the Consumer Price Index has not always been seen as sufficient protection. Public discussion has revolved around questions of general adequacy, adequacy in relation to rising wage levels, and adequacy specific to the elderly with perhaps varying needs and wants. As for social insurance, the Canada Pension Plan is now widely accepted; its future course will be affected primarily by demographic and economic rather than philosphical considerations. In the private sector, however, economic and social changes have led to examination of the nature of a pension and the guarantee of the pension promise. It is in this area then that we may expect more fundamental changes in the next decade.

Long-Service Reward or Deferred Wages

If a pension is a long-service reward then existing pension plans, with their benefit levels geared to long periods of service, are in accord with that philosophy. Absolute entitlement to a pension arises from long service and age. In these circumstances, the short-service employee should not expect any entitlement on termination of employment. The employer, who is expected to continue in business over the life span of the worker, may be presumed to have complete control of the mechanics of providing the reward: how the money is set aside and invested, and what information is divulged to the employees.

If a pension represents deferred wages, however, it follows that the employee must earn some entitlement from day to day, rather than suddenly after a lifetime of service. Even if the employer's contributions, as in all defined benefit plans, are pooled for the eventual benefit of the group rather than allocated to individual accounts, each member must be considered as accruing pension credits continuously. In its ideal form, a deferred-wage pension plan would provide a benefit equitably related to earnings to every member on leaving the plan, whether by retirement, termination, or death. With the idea of members' equity in the plan appears an obvious corollary: that the members are entitled to play the owners' role, to control investment of the pension fund, and to have full information about its operation.

Vesting features, in which termination of employment could give rise to a deferred pension, were an early recognition that the long-service design did not always fit the needs of all workers. Vesting, and with it the notion that pension credits accrue gradually over a person's period of service, came to be embodied in law. More recent developments, including an increase in job mobility and a perceptible growth in public scepticism concerning the structure and performance of pension plans have been reflected in demands for both legislative and voluntary changes that would give additional effect to the deferred wage principle in employment pension plans.

Submissions to the Commission indicate a widespread acceptance of pensions as deferred wages; but the implications of that acceptance were not always recognized in the suggestions for changes in pension operation. In some cases discrepancies arose purely from cost considerations. Immediate vesting, for example, may be seen as desirable but excessively costly to the employer. In other cases a logical consequence of applying the deferred wage theory is a completely different method of funding, possibly unacceptable to employers.

"Discrepancies" may be indicative of nothing more than prudence in approaching new and perhaps costly solutions; or of a desire to retain some minimal long-service element in an essentially deferred wage plan structure. Or, as so often happens in a pluralistic society, the new philosophy may not be adequately served by the terms commonly used in public debate.

Group Funding or Individual Accounts

Taken literally, the term "deferred wage" would imply that a pension fund is no longer the property of the employer. An important question remains, however: in what way should employees share ownership and control of the money? It is one thing to remove monies from the employer's exclusive control, but quite another to determine how those monies may be allocated and invested so as to reflect the interests of the employees. Where pensions are purely long-service rewards, equity among employees is the least of many problems in the picture; clearly there is virtually unlimited scope for reallocating employer contributions from those who do not become entitled to benefits to those who do, and from the low-cost younger groups to pensioners and those approaching retirement. The employer, as a guarantor of the eventual pensions in a defined benefit plan, may in fact have undertaken a liability far in excess of fund assets at a given time, and may see no necessity to account for the use of each member's contributions. By contrast, a literal application of the deferred wage concept would see regular amounts of money credited to each employee from the date of hiring, with each having an absolute entitlement to the value of all amounts so credited together with all interest earned during the time the funds were invested. Not only would the employer have no right to recover any of these "deferred wages" but there would be no possibility that an employee's share of the employer's money would be reallocated to provide benefits for other employees.

The reality today, however, is that most members of employment pension plans belong to defined benefit plans. Instead of accruing individual accounts (in dollar terms) they earn pension credits - that is, portions of an eventual, specified pension. Employer contributions are determined by the estimated cost of benefits for the group, and are not allocated to individuals. Since the present cost of a future dollar of pension depends on a person's age, sex, and various group characteristics, the amount of employer contribution that might be attributed to

a particular employee will have little or no obvious relation to that person's earnings for the same period. In short, the deferral of wages is expressed as an ultimate pension entitlement, not as an immediate payment by the employer.

In this form of pension financing - group funding, as it is sometimes called - wages are deferred in the sense that money the employer otherwise would add to employees' pay is used to pay for pension benefits for the group. The deferred wage approach may be underlined if the employee group rather than the employer has effective control of plan investments and benefit administration.

Money-purchase plans on the other hand allocate employer contributions directly to the individual, usually in proportion to the person's current earnings. It is these monies which, with the employee's own contributions and investment earnings, constitute the entitlement of the individual at any given time. Whether the entitlement is absolute will depend on the vesting provisions. No specific amount of pension is promised, since that can be determined only at the time of retirement according to such individual factors as sex, age, and - most importantly - interest rates and number of years in the period of accumulation. In a money-purchase plan wage deferral seems more visible at the stage of payment into the fund, though not in the amount of the eventual pension. Also visible to the employee is the growth of his or her individual account, including the effect of investment earnings; and the dollar value of employer contributions that may be forfeited if the employee leaves the plan before vesting is attained.

If the concept of deferred wages were in fact accepted generally by employers and employees, its manifestation as a "philosophy" would still be somewhat unclear. Defined benefit and money-purchase plans represent two sharply differing interpretations, and will continue to do so even if the employer's traditional role is increasingly shared with or relinquished to employees. An appreciation of these distinct mechanisms and their evolution is central to this phase of the Commission's investigation. The fact that few people or organizations now advocate the use of pensions primarily as long-service rewards gives us only a useful point of departure for a more detailed examination. It does not, by itself, establish a clear-cut philosophical basis for predictions about the future or prescriptions for government action.

Voluntary or Mandatory

However, retirement income philosophy goes beyond consideration of the deferred wage theory and the long-service reward theory. Employment pension plans are voluntarily set up by the employer. Where none exist employees must make their own arrangements for retirement income. RRSPs have been made available for this purpose and in recent years have been extensively utilized, especially by those with above-average incomes. Again, such plans are voluntary. The question is whether government

intervention is necessary to ensure pension coverage for all workers. At present a million and a half workers in Ontario have neither RRSP nor employment pension plan coverage. As a result, proposals for increased benefits under the Canada Pension Plan have emerged from government studies (the Cofirentes Report and the Special Senate Committee on Retirement Age Policies), from union groups and others. Important questions have been raised in other quarters, however, about the long-term cost of the social insurance program, especially in the light of demographic changes already occurring or anticipated. As a result - and because CPP financing in any case is due for almost immediate revision - the present decade is the time for a choice between further reliance on that plan and alternative approaches to improved coverage and benefits.

Response to Inflation

The need to protect the purchasing power of pensions adds a further dimension to the problem of assigning responsibility for retirement income among governments, employers, and individuals. If the responsibility is the government's, must it respond only through formal pension vehicles? If the responsibility is the employer's, should government power be used to force inflation protection on voluntary plans? If the responsibility is the individual's, at what point must government act to ensure adequacy of retirement income?

If, as the Commission hopes, there is to be a system of retirement income involving the co-ordination of the roles of government, employer, and the individual, careful consideration should be given to the philosophical basis on which such a system is to be built.

DEMOGRAPHIC IMPLICATIONS FOR THE CANADA PENSION PLAN

The 1980s are years of decision for the Canada Pension Plan. All official projections for the plan have shown the first "critical" year for the plan - when the benefits paid out in a year exceed the year's contributions - to be between 1982 and 1986. A decision must therefore be made if and when contributions to the plan are to be increased and if so, by how much. Long-range considerations in setting new rates will be dominated by the knowledge that, as a result of the post-war baby boom, a disproportionate number of CPP contributors will retire between 2010 and 2030. The resulting "bulge" in the retired group not only would mean a very substantial increase in the aggregate amount of CPP pensions payable each year, but, with a relatively smaller work-force, could also mean a sharp increase in contribution rates to finance the pay-as-you-go benefits. Some see that consequence as inevitable, and advocate a complete and immediate change in the funding basis of the Canada plan so that each generation of workers would pre-fund its own pensions. Contributions would be raised now to a level which, with interest on invested funds, would provide the desired benefits and might require little or no adjustment over the years.

As we must approach this vital question without the benefit of hindsight, it is important that we apply some caution in measuring and evaluating the effects of population trends, especially those of fairly recent origin. For example, the more pessimistic predictions of CPP costs rely on a projection of the present downward trend in the birth rate. But an upswing in that basic population factor in the next decade or two would produce a more favourable ratio of workers to pensioners in the longer term. An increase in immigration would bring about a more rapid increase in the work-force. Significant breakthroughs in the treatment and prevention of disease and death among either the old or the young could alter the active-retired ratio in either direction. And some allowance must be made for changes in patterns of work-force participation - by women especially, but also by the older members of society.

Notwithstanding these uncertainties, certain projections of population and work-force are fundamental to the task of setting the Canada Pension Plan on a viable long-term course. Answers which take into account only today's dependency ratio - roughly one pensioner to seven workers - will not stand the test of experience if that ratio changes radically. Fifty years from now, according to a study released by the Economic Council of Canada (One in Three, Pensions for Canadians to 2030, Ottawa, 1979), there may be as few as three active members of the work-force to support each pensioner. The productivity of that work-force on the other hand is the key to the burden which must actually be borne. Thus the future of the Canada Pension Plan is linked to the future performance of the economy.

PENSION COSTS AND THE ECONOMY

Pension solutions which meet an appropriate set of philosphical and demographic criteria still must satisfy another basic test: the ability of society to pay the costs. How the economy grows - how rapidly, how regularly, and how evenly - will affect not only the potential total amount available as retirement income at a given time, but in what proportions it may be raised from public and private sources, and how equitably it may be distributed.

At the turn of the decade it seems that economic uncertainty is more prevalent than at any time since the end of World War II. In such a climate those who must make long-term plans and therefore take long-term financial risks are understandably cautious. Inflation, apart from many other disturbing developments of the 1970s has given rise to a great deal of critical examination of pension plans and other provisions for retirement income. The "producer's" question obviously centres on the future health of the enterprise: will I be ruined by the rising cost of final pay pensions or indexing of benefits? Similarly, the consumer may well ask whether the eventual pension - from today's deferred wages or personal saving - will be worth anything in real terms.

Society as a whole must try to come to grips with both questions as soon as possible. We are not allowed the luxury of waiting until all the uncertainty is past, since the major decisions about tomorrow's retirement income must be made today.

Proposals for pension reform accordingly should be assessed against a range of economic scenarios; techniques that promise the best results in the widest variety of economic conditions clearly are to be favoured over those which rely heavily on the most optimistic or pessimistic economic predictions. At the same time we must be aware that in some important respects a pension system may actually contribute to economic growth and so help pay for itself. That reciprocal effect may be seen in the constructive use of today's savings for the creation of capital, enhancing the ability of the economy to meet tomorrow's needs. An effective pension system will also channel more income into the hands of the elderly, who are a steadily expanding group of "aggressive consumers" as one economist has noted. This in turn should encourage the growth of productive facilities to meet the resulting demand, not only for the bare necessities but for a great variety of discretionary goods and services.

Lacking either the mandate or the means to solve the economic problems that are so much in evidence at this moment - much less to comment on various new crises that may transpire in the future - the Commission nevertheless feels that a workable system of retirement income can become a reality during the present decade, and that it can be so designed as to make a positive contribution to economic development in both the short and the long term.

EQUITY

In the 1980s we may expect continuing calls for equity among individuals and among groups in Canadian society. Judgment by the public of various arrangements for retirement income will be based on a perception of fairness. At present certain inequities exist - or are often thought to exist - between the young and old, men and women, high income and low income workers, and between pension plan sponsors and members. Some movement towards removing these perceived inequities is observable at present, although cost considerations are often cited as a reason for the slow rate of improvement.

Young and Old

Changes in Canada's population growth have raised concern about the future funding and contribution structure of the CPP. It is important that the plan reflect the long-term effects of the birth rate and immigration so that inter-generational transfers will be accepted as a fair distribution of both cost and benefits as between the younger and older groups.

While looking toward the future, we must not overlook the interests and needs of the very large group already retired, including those who never were in a position to benefit from the Canada Pension Plan: people who ceased work before the plan went into effect; others who retired before 1976 and hence receive only partial plan benefits; and still more who had little or no attachment to the labour force but nevertheless contributed to society according to their capacities, often as homemakers.

Employment pension plans which continue to lock-in contributions without updating of benefits and with emphasis on real benefits only for long-service older workers, will continue to foster a sense of injustice, reflected in a high rate of job termination among younger employees, and a consequent loss of eventual pension entitlement.

Continuing inflation, even at a more moderate rate, will create demands by retired workers for increases in their pensions, and these demands will conflict with those of active workers for improved benefits at retirement.

Men and Women

Legislation requiring equal pay for substantially equal work would have important long-term effects on the level of pension benefits for women. With increasing participation of women in the work-force, earning their own pensions, their traditional position as spouse-dependent will change; the relative importance of survivor benefits may gradually decline as women obtain more income in their own right. With the resulting improvement in the position of elderly women, especially single women, there will be fewer demands on government programs of income supplementation. Other developments in the status of women, including legislation and practice affecting the division of CPP and other pension credits during or after marriage, are likely to reduce or eliminate many existing inequities between males and females, whether those inequities arise from pension arrangements as such, or from other occupational and social conditions.

The reality of sharply different life expectancies between men and women presents a continuing problem in achieving equality where pensions are to be provided from equal accumulations in RRSPs and money-purchase plans.

Special measures are emerging to recognize the particular work patterns of women. An example is the proposed child-rearing dropout in the Canada Pension Plan.

High Income and Low Income Groups

Different components of the retirement income picture today reflect a general acceptance of the principle that government programs should be

directed toward those at the lower end of the income spectrum; those in higher brackets are assumed to have proportionately greater responsibility for their own financial security. This principle is reflected not only in the income-tested nature of transfer payments (GIS, GAINS) but in the presence of an earnings ceiling in the Canada Pension Plan which places a limit on contributions and benefits. The same principle is implicit in certain maximums applicable to tax-sheltered RRSP contributions, and dollar limits on the deductibility for tax purposes of pension income and related amounts. Because there can be no single boundary between high and low incomes, equity in public programs is customarily assessed according to whether they are progessive or regressive and to what degree. Any one program or a combination of programs is considered to be progressive if its effect is to redistribute income from those with more to those with less. Thus, for instance, the notion of voluntary CPP contributions for housewives has met the objection that such a provision would mean very little to low-income families, but would offer a heavily subsidized benefit for those who could afford to contribute.

The 1980s may see increased use of income tax credits for redistribution of income. The tax system is available, enforceable, accessible to all Canadians whether income earners or not, and based on progressive taxation principles. If the diversity of retirement income programs ultimately stands in the way of achieving a rationalized system, there may be a shift to a guaranteed annual income approach, at least for the elderly.

Pension Plan Sponsor and Plan Member

Equity in employment pension plans as between the employer-sponsor and employee-member still seems difficult to achieve; and even when achieved it may be difficult to perceive. Where the employer undertakes to provide a pension, or simply to support a given level of money-purchase accumulation, that employer's management of the fund is often conducted in an atmosphere of deep mystery, at least in the eyes of the members. Public concern over the financial stability of some pension plans is too easily translated into a lack of confidence in the employee's own plan; or a comparison of the nominal interest rates set out in that plan with the much higher rates prevailing in the market may lead to suspicion that the employer is making money at the members' expense.

Moves toward more disclosure of plan information to employees thus far have been hesitant and frequently confusing. Implications of unfunded actuarial liabilities in defined benefit plans are not easily explained to the layman, nor is the relationship between employee contributions and employer costs. If equity is to be demonstrated in group funding arrangements (as discussed earlier in this chapter) it becomes necessary either to find new techniques for "meaningful disclosure" or to have recourse to simpler plan designs. Pressure is also seen for more employee participation in decision-making, perhaps through repre-

sentation on company pension committees. These issues reflect the basic and justifiable concern of individuals for security of their future income. Answers must be found if employment pensions are to play a role of any significance in a future retirement income system.

CONCLUSION

The thinking and analysis in this report have been shaped by the underlying factors just discussed. The Commission's recommendations are designed to fit the pattern of change the Commission sees ahead. As will be seen from our overview of the problems inherited from the 1970s and preceding decades, that pattern of change is the product of numerous processes, often related but sometimes conflicting, in which people's wants find new forms of expression and begin to be met through adjustments and innovations of various types and degrees. As with all other economic processes, the consumer is at the centre, as the ultimate beneficiary of any pension system and the victim of its imperfections.

Chapter 2

Aging, Retirement, and Pensions

The study of pensions and retirement involves learning about aging and the aged. The study of aging has two broad aspects: it refers to the life cycle of individuals, and it refers to the life cycle of society or to the aging of a population.(1) Unlike individuals, a population does not necessarily age or grow old; it may be said to be aging when it is not reproducing itself because its fertility rate is declining. A population is stable when the fertility rates are such that the population replaces itself. The Commission discusses demography in later chapters of the report to ascertain whether Canada's is an aging population and the implications for the future. In this chapter we will examine individual aging and our social attitudes toward aging and retirement. We will then consider the provision of income in retirement and the nature of a pension.

ATTITUDES TOWARDS AGING

Aging is a gradual irreversible biological process affecting all living creatures whereby their organisms change over time as a result of the passage of time. Aging may or may not involve physical or mental deterioration. Earlier research was based on the notion of aging as associated with mental and social decline and physical debilitation.(2) Recent work does not support this theory: "No significant mental and social decline appears to be due to aging as such."(3)

There is a correlation between age and biological capacity. Physical appearance changes over time. There is a mutual relation between old age and disease: disease hastens aging and age renders the older person more subject to disease.(4) Current literature as described by Robert Clark(5) shows that aging results in slowed perception and response and diminished capacity for short-term retention of information. However, the capacity for reasoning and judgment suffers little

impairment with age, any slowing of comprehension being counterbalanced by greater depth of knowledge. Only relatively small changes in an individual's ability to perform in the work place are associated with age itself. Compensatory factors may be at work in that as certain skills decline others improve; reflexes may slow but judgment may improve. However the older person has difficulty learning new responses and overcoming old habits. An older person's attitudes are more "set."

Although aging begins at birth, it affects each person differently. As one study observed: "Chronological age, of necessity, is used to categorize individuals for administrative purposes but age is a very poor predictor of behavior, personality characteristics or attitudes. In addition, individual differences among the old are larger than among any other age group."(6) Because the effects of aging vary with the individual we must be careful to avoid stereotyping the old as feeble, dependent, and lonely. Some are dependent and some are not. Some are healthy and some are not.

Daniel Baum(7) describes the negative stereotyping of the aged:

> "The stereotype views the elderly as predominantly sick and disabled. Their mental faculties are seen as severely reduced; they are fixed in their notions and are either inconsequentially garrulous or silent and withdrawn. Their morale is low, they complain continually and regret the passing of the old days. This makes them disagreeable companions. They have no inclination or capacities for activities more demanding than watching television. They mostly live alone and are totally isolated from the social point of view."

Simone de Beauvoir comments on other aspects of society's view of the aged:

> "They still retain the virtues and faults of the men they were and still are: and this is something that public opinion chooses to overlook. If old people show the same desires, the same feelings and the same requirements as the young, the world looks upon them with disgust; in them love and jealousy seem revolting or absurd, sexuality repulsive and violence ludicrous. They are required to be a standing example of all the virtues. Above all they are called upon to display serenity: the world asserts that they possess it, and this assertion allows the world to ignore their unhappiness."(8)

These negative attitudes toward the elderly arise on a basic level, first from the fact that growing old inevitably leads to the ultimate physiological decline and death. Second, society associates youth with beauty to such an extent that the old are seen as ugly, and these attributes are so valued that aging is to be avoided as long as possible. The old are complimented on their ability to remain and to look "young,"

or healthy and vigorous. The emphasis on beauty is particularly difficult for women who are continually exhorted to be and remain physically attractive. Throughout history and literature old women are the least admired.(9)

Third, and perhaps most significantly from a social point of view, the old are considered by many to be inactive, unproductive, and dependent. "Senior citizens are those usually removed from the mainstream of economic life. They are by societal definition not the productive members of the community. They represent a drain on the community."(10). According to the Concise Oxford Dictionary, the very word "retire" means to withdraw, retreat, seek seclusion or shelter, recede; to cease from or give up office or profession or employment.

Part of the reason for society's feelings about the elderly is that being productive is so highly valued in our society. In Ontario, 98 per cent of men between the age of 25 and 65 are in the labour force.(11) Almost 60 per cent of women between the ages of 25 and 65 are in the labour force, and if one includes homemaking duties as "work," most women are productive. Today there is virtually no leisure class save the retired, and work, not retirement, has social status and social worth. The Economic Council of Canada's study of the Canadian labour market found that

> "studies show that Canadians are strongly motivated to work and regard work as the principal vehicle to success. They enjoy being productive; they work not only because they have to but also because they like to; and the majority obtain some degree of satisfaction from their jobs. In terms of their sense of commitment and self-fulfilment, Canadians rank work second only to their family ties or in some cases, their friends."(12)

And of course, people rely on income derived from employment for their livelihood. Employment income constitutes the bulk of family income. Fully 87.3 per cent of family income in 1973 was derived from wages and salaries and net income from self-employment.(13)

Our negative attitudes have made us look upon the elderly as a group apart. We do not like the words old, aged, and elderly so we have called our aged "senior citizens" to mask our ambivalence. Not only have negative attitudes towards aging contributed to this isolation of the old but our social institutions perpetuate this isolation. Yet a senior cititzen is not a lesser citizen.

Perhaps the major factor contributing to the creation of a class apart is society's fixation with age 65. Our laws imply that those turning 65 are incapable of working or ought not to be working. One may be compulsorily retired at age 65. Our public retirement pensions begin at age 65, namely Old Age Security and Canada Pension Plan. One obtains a special tax exemption merely by being 65. Unemployment insurance

premiums cease at age 65. Persons attaining age 65 obtain OHIP coverage without payment of premiums, and certain drug benefits are free. In addition, a wide range of other benefits are available in the form of discounts offered by transportation companies, the entertainment industry, and educational institutions.

We entrench age 65 without regard to the physical capabilities or desires of individuals. Our ambivalent attitudes about aging permeate our social institutions. On the one hand, because of a distaste for the elderly, employers do not want to hire them and on the other, because of respect and paternalism, society feels the elderly have worked long and hard and may now rest.

It is time to re-evaluate our treatment of the elderly. It seems to the Commission that the elderly should be fully integrated in the life process and in social programs. Many of society's customs are part of the reason for the isolation of the old and negative attitudes towards the old.

Attitudes Towards Retirement

In the past, one was economically productive until one died or was incapable of working. Today, we have a large group of elderly persons who stop working and enter a phase of life called "retirement." Two profound changes have occurred which created this situation. The expectation of life at birth has changed from 18 years under the Romans to 70 years for men and 77 years for women in Canada today.(14) Since 1941 alone, male life expectancy increased by 7 years and female life expectancy increased by 10 years.(15) In 1931 the average age of death was about 44 years but in 1971 it was 63 for men and 68 for women.

The second major change is that our society is sufficiently affluent to contribute to the support of elderly dependants. In some cultures the old were killed or expelled because the society could not afford to support those who became economically unproductive. In our own past the unproductive elderly were cared for by members of the family. Today society assumes responsibility for the economically unproductive. Our relative wealth permits a freedom of choice not previously available.

Retirement is not a satisfactory word to describe the later stages of one's life insofar as it connotes withdrawal. It is as difficult to define as "old." One may be "retired" and yet continue to work for another employer or in a different fashion. A professional athlete may "retire" at an early age. To some people one is in the category of "retired" simply because one is 65, and to most retirement implies old age.

In a way, retirement is the social adjunct of aging. In social science literature there are two main theories of aging: the disen-

gagement theory and the activity theory.(15) The disengagement theory emphasizes retirement as withdrawal on the part of the individual and society. The individual withdraws from commitments to various social roles, and society withdraws support from the individual, as in the case of compulsory retirement. As a person ages, he or she will have fewer interactions with other persons.

The activity theory holds that continued productivity and social interaction are essential to human satisfaction and well-being. The theory assumes a continuation of lifestyles into retirement and accounts for reduced activity by decreased energy.

Each theory represents a different perspective on retirement. The activity theory, with its emphasis on continued involvement, may be the attitude of the future and may more accurately reflect popular opinion about what retirement should be. Today's retirees reflect the work ethic, and their activities are congruent with their past lives. Early retirement today is associated with ill health because its social acceptance hinges on the claiming of ill health. Tomorrow's retirees are likely to be better educated, in better health, more active, and more affluent than today's retirees, and retirement is likely to be viewed more creatively. Tomorrow's retirees view retirement as an earned privilege, and this attitude will free them to pursue leisure actively.

Our sociologist Dr. Kubat has pointed out that attitudes towards retirement are determined by attitudes towards work and these differ from one generation to another. Persons who are middle-aged and older today view work as the norm, (housework for females), and retirement therefore represents a discontinuity of self-definition particularly in males. Dr. Kubat points out that this attitude may change with the baby boom generation who were raised in a permissive society and have primary ties with their age peers. Today's young adults do not share the same traditional outlook on work nor the same work ethos. They may drop out of the labour force as alternate support funds become available and may alternate employment with other members of the household.

With the growth of the affluent society and the longevity of its citizens, the concept of retirement has come to refer to a time of life when one may live comfortably without the necessity of earning a living. Retirement has become a matter of right and a reward for years of labour. As a social institution retirement is the "right to an income without holding a job."(16) That being the case one must next consider how that income is or ought to be provided in retirement.

INCOME IN RETIREMENT

In the past if one wanted to stop working one had to have accumulated sufficient savings or one had to rely upon the charity of others. Few people were wealthy enough to have a few years of rest before death.

People relied upon themselves. Except for municipal relief to indigents and the beneficence of employers to long-service employees, formal employment pension plans and government programs for the elderly developed only in this century.

A variety of views were expressed to the Commission concerning the respective roles of the individual, the employer, and government in providing for income in retirement. The briefs clearly show and the Commission agrees that the individual, government, and the employer have roles to play in the provision of retirement income.

Ontario Association of Professional Social Workers, Brief 136

> "It is surely clear that all aspects of any standard of living which may be conceived for a retired person in our society must depend, in the final analysis, upon the individual, his family status, his geographical location, his ethnic, cultural and religious background, his health, and a multitude of other factors which can scarcely be channeled from individual to individual." (page 2)

Canada Permanent Mortgage Corporation, Canada Permanent Trust Company, Brief 151

> "Canada Permanent is a major financial institution and corporate employer, and in both of these roles the company believes that the expectation of employees can best be fulfilled by a combination of public, private employer and individual systems. The Permanent attaches great importance to maintaining the present degree of freedom which each corporation has to reward its employees in different ways, an integral part of the total compensation being deferred compensation in the form of pensions. Further, the Permanent believes that the spirit of individual self-reliance which has characterized the growth of this country must be maintained, and therefore strongly believes in the provision of vehicles whereby each individual may make his own saving to meet his own desires and needs during retirement." (page 1)

Ontario Advisory Council on Senior Citizens, Brief 154

> "Work-related pensions cannot at this time provide sufficient income for all those in later years. Therefore the government must accept the responsibility of ensuring that all senior citizens have sufficient income to meet their basic needs." (page 2)

Canadian Institute of Actuaries, Brief 225

> "The extensive debate on pensions to date has taken place despite the fact that a vital ingredient has been missing: the problem has not been clearly defined. It seems that a preoccupation with group

pension planning has drawn us away from the real problem - individual retirement. Group pension planning cannot provide the answer to the problem because we are not dealing with one homogeneous group or even with a small number of different homogeneous groups. We have to deal with several million individual people with their own personal problems, desires and expectations. Retirement, the real problem, is an individual social problem, and no group financial programme can ever be a complete solution. (page 1)

"There are a number of possible roles, not necessarily mutually exclusive, for government in retirement planning. The first is to be a provider of benefits. This will be necessary at least for the inevitable group dependent upon society for support for any of a variety of reasons other than an unwillingness (but not an inability) to work. Governments can, and do, extend their role of provider of benefits into areas supplementary to welfare through social insurance plans such as the Canada/Quebec Pension Plans.

"Secondly, as an alternative to, or supplementary to, the role of provider, the government can adopt the role of regulator (e.g. Pension Benefits Act) and can also provide important standards such as minimum pension legislation, anti-discrimination legislation, minimum normal retirement ages, and initiate trends and social attitudes.

"The role of an employer should be to provide reasonable total compensation in return for the labour provided by his employees. It becomes an individual decision between employer and employee how this compensation should be allocated between direct cash compensation, non-cash current compensation, and indirect or deferred compensation to provide sick pay, death benefits, pension and so on. (page 14)

"Finally, there is the most important third party in the planning process, the individual. Recent social developments in the welfare area, exacerbated by the devastating effects of high inflation on personal saving, have created an atmosphere in which increasing numbers of individuals have come to rely on someone else to protect them. We are in Canada becoming infected by the British disease of cradle-to-grave social security. The trend must be reversed and the only way is by developing a new store of value for personal saving to enable individuals to become self-reliant again. (page 15)

"It is obviously socially desirable that elderly people living on pensions should have an adequate amount of income to provide for a reasonable standard of living. This income can come from only two sources:

(a) intergenerational transfer payments from current producers;
(b) deferment of some benefits out of current production into capital investment in productive resources for retirement consumption." (page 17)

Mr. D. Eastman, Brief 318

"I look to retirement income to provide the difference between survival and some greater level of comfort. That greater level of comfort should be based not on what I would like - but on how much current purchasing power and present pleasures I am willing to forego to pay for it. The only retirement income I want is one that I pay for. Anything else is either private or public welfare. By the same token, I don't want any less than what I've paid for." (page 1)

Trust Companies Association of Canada, Brief 361

"Private employer-sponsored plans have the primary objective of generating more adequate income protection for a majority of the working population. Ultimately, pensions are designed for individuals, and the uniqueness of each person's circumstances requires personal responsibility, planning and therefore savings. Freedom of choice to plan one's own future retirement highlights the importance of individual initiative. Individuals have different preferences for earlier or later retirement, and different income needs during retirement. Voluntary personal savings meet this flexibility objective, endorse the principles of independence and self-reliance, and permit an individual to balance his current spending with savings for future needs." (page II-3)

Role of Individual

There is general agreement that retirement is an individual matter and that ultimately the individual is responsible for his or her own retirement. The Commission places the prime responsibility for providing retirement income on the individual. Individual needs and desires require flexibility, which cannot be given by group programs or universal social programs.

Secondly, the Commission thinks that self-reliance should be encouraged and rewarded. Although the development of social security programs and group benefits and group insurance reflect an increasing socialization and reliance on institutions, greater emphasis must be placed on individual planning in the future. Our society should not reach a stage of social "over-insurance" where individual effort seems futile or unrewarding. There should be real economic value to work, and to work and save should have greater value than not working and not saving. This principle should be adopted throughout the entire social

security network. Government programs must avoid disincentives to individual initiative.

Thirdly, individual planning for retirement results in efficient allocation of resources. People then save for their own needs and utilize savings as they see fit.

Individuals plan for retirement in many ways. They take advantage of the considerable tax savings available through Registered Retirement Savings Plans (RRSPs) which are tax sheltered plans aimed at the accumulation of funds to provide income in retirement. Individuals save in ways that may or may not result in a tax advantage. They look to their homes as a source of security in retirement. They may look to personal savings as well as investments, annuities, and the like.

This report will be examining the income of the retired in Chapter 4 and retirement income from RRSPs and other retirement arrangements in Chapter 7.

Role of Government

While the Commission emphasizes the primary role of the individual it recognizes that "government" or "society" has a responsibility in the provision of retirement income. The Commission has characterized three general roles of government as an anti-poverty role, a social security role, and a social incentives role.

Generally speaking, most people agree that society should assist non-productive people and contribute to the relief of poverty of all citizens. Society clearly accepts this anti-poverty role of government towards the elderly. The elderly were one of the first subjects of social legislation (after disabled workmen and war veterans), and there is complete agreement by the public that society should assist persons in need during their retirement years. The federal government administers the Guaranteed Income Supplement (GIS) which is an income-tested payment paid to low-income recipients of the old age pension. The federal government also administers a similar program for needy spouses of pensioners aged 60 to 64. Ontario administers the Guaranteed Annual Income System (GAINS) which is an income-tested benefit added to the amounts received from the federal programs and the program provides a guaranteed annual income for the elderly. In addition a wide range of benefits and services are provided to the needy elderly such as subsidized housing and tax credits.

The second role of government, the social security role has developed during this century where government assumes functions formerly done on an individual basis. This provision is made to provide benefits collectively and costs are paid through general taxes as in the case of the old age security pension or with the aid of special premiums as in the case of health insurance. Another example is the Canada Pension

Plan where a collective scheme helps individuals provide for their own retirement. Workers make contributions for retirement benefits based upon a worker's lifetime earnings. The more one earns, the more one receives at retirement to a maximum. This program is seen by many as an earned right rather than as welfare even though the contributor's eventual retirement benefits exceed the value of his or her contributions in the majority of cases at the present time.

The Old Age Security (OAS) benefit paid to all Canadians over 65 which is not based on need and which is not a contributory scheme is more difficult to rationalize. The same is true of all universal benefits such as free OHIP coverage and free drugs to all over 65 regardless of need. On one level they can be said to be on an "assumed need" basis in that they imply that all persons over 65 need additional income and assistance. Historically they can be justified on this basis since many elderly are poor. Also, as a universal payment OAS gives a retirement income to persons who may not have been gainfully employed, such as the disabled, or to homemakers who have little or no earnings outside the home. Further, a pervasive attitude towards the elderly is that they deserve a greater share of social assistance because they are old, and by implication, because they have worked productively for a lifetime.

New Era Seniors Association, Brief 334

> "It is our firm contention that a senior citizen is entitled to an adequate pension as an earned right for the contribution he or she has made to the gross national product of our country." (page 2)

Mr. S. Smith, Brief 82

> "A pension is a social contract. The pensioner by the very nature of things must be a burden on those working to make the necessities and luxuries he needs to live. The persons working accept this burden because they hope that they in turn will receive the same support from a younger generation when it becomes their turn." (page 2)

Canadian Institute of Actuaries, Brief 225

> "...All developed societies protect their children since from them comes the future security of the society. Protection and support for the elderly arise out of gratitude and compassion, which are more fragile motivations." (page 2)

However, these rationalizations do not really explain a universal program such as Old Age Security. It is a social security anomaly in that it is not based on need, is not related to social insurance earnings or premiums and does not operate as an incentive for individuals to provide for retirement. Canada is one of the few countries in the world to have such a program. All of the government programs and other bene-

fits are discussed in Chapters 5, 6, and 7 and Volume V of the report deals in depth with the Canada Pension Plan.

In its third role, government is involved in encouraging behaviour to achieve certain social goals. This might be called the social incentives role of government. Government legislates to stimulate the economy when grants are given for relocation, redevelopment, or job creation. The degree of regulation in an area may act as a stimulant or deterrent. The tax system is often used to stimulate behaviour. The government is involved in many ways to encourage the provision of retirement income. Tax deductions are permitted for contributions by employers and employees to registered pension plans as well as contributions to other registered arrangements such as Deferred Profit Sharing Plans and Registered Retirement Savings Plans. The first $1,000 of pension income is tax-free. The growth of such registered funds is tax free so long as the monies are not withdrawn. In addition, having encouraged a certain form of behaviour the government passes laws to ensure that such arrangements deliver what is promised. For example the province of Ontario requires that pension plans be funded in accordance with law and that pension funds be invested in certain ways and no others.

Role of Employer

The role of the employer is more difficult to articulate. The first objective of the employer is to operate a business successfully and employers who provide pensions do so because it makes good business sense. Providing pensions helps employers to attract and hold good personnel. Second, employers wish to benefit employees, particularly long-service employees who have contributed to the success of the business. The employer is not really interested in the retirement income of short-term employees who leave to work for another, perhaps for a competitor. Third, pensions ease the transition from working to retirement for older employees. If an employee has insufficient income in retirement there will be a greater fear of retirement. The role of employers is much more limited than that of individuals and the government. Employers play a role only when they choose to provide a pension plan. Employers may in general be regarded as providing a facility for employees to obtain income in retirement and a primary social objective for employment pension plans is to provide for the security of the individual in retirement.

The question of the role of the employer is perhaps more appropriately considered as a question of the extent to which the provision of retirement income should be part of wage or labour costs. The importance of work to Canadians has been pointed out. Wages or earnings are often the basis of government programs as well as individual arrangements. Social security programs such as the Canada Pension Plan are wage related. Contributions to RRSPs come mainly from "earned income." Employment pension income is clearly related to work and wages. The

question of the nature of employment pensions is not clear and will be considered in the following section. The broader questions of the extent to and the manner in which retirement income is and should be part of the wage package are considered in various aspects in Chapters 8 to 11.

NATURE OF AN EMPLOYMENT PENSION

In popular discussion employment pensions are characterized either as long-service rewards or as deferred wages. As defined in the Pension Benefits Act pension plans are programs that may be instituted by employers for the purpose of providing income in retirement to former employees. The pension arrangement may take many forms and may provide a variety of benefits although the income at retirement takes the form of a life annuity. The cost of pensions may be borne entirely by the employer ("non-contributory plans") or may be contributed to by employees through payroll deductions ("contributory plans").

The nature of an employment pension contains elements not only of a reward for long-service and a deferred wage, but also of a savings program and a group insurance scheme. These characteristics will be examined as well as attitudes about pensions contained in briefs to the Commission.

Long-service Reward

No one appears to hold that pensions are essentially and exclusively long-service rewards. The most that is acknowledged is that pensions may, in part, represent a long-service reward.

Algoma Steel Corporation Limited, Brief 218

> "The purpose of a pension is to provide part of an individual's financial resources during retirement. Once this was considered to be the absolute responsibility of each individual. With changing social standards, there has been a change in this responsibility for pensions. Most public pension arrangements are deferred direct compensation intended to provide the beneficiary with an income level which will cover basic needs. Private pension arrangements reward faithful service and bridge the gap between the pension levels of public arrangements and any higher income level which an individual may be able to achieve as an employee under some of these private arrangements." (page 7)

Canadian Pension Conference, Brief 224

> "While the philosophical reasons for pensions are many and varied, we think the boundaries within which all views fall can be defined. One boundary is that pensions are rewards for long, faithful and

valuable service to an employer. The other boundary is that pensions are a form of deferred compensation. It is our opinion that every pension is based partially on each of these reasons, and that some part but not all of every pension benefit is therefore a form of deferred compensation." (page 12)

It is hard to understand why the phrase "long-service reward" has become so unpopular. The Concise Oxford Dictionary defines reward as "return or recompense for service or merit." Pensions are clearly a return for service, a monetary recognition of long service. The granting of a pension before the advent of formal pension plans was an ex post facto beneficence by the employer based on a moral obligation to reward long-service. The notion of a reward has become objectionable in all likelihood because the giving of it is the donor's prerogative. A key reason for the popularity of the notion of the pension as deferred wages is the element of its being an earned right, an earned return. However, regardless of the popularity of the deferred wage theory, pensions today operate as long-service rewards. First of all, the question of whether or not there will be any pension at all rests with the employer because setting up a plan is the choice of the employer except where plans are established through the collective bargaining process. In addition the fact that a pension plan is established is no assurance of its continued existence. The employer has the right to terminate the plan. Thus an employee may have a pension only if the employer provides one.

Second, pensions are inherently related to service, particularly long-service. The length of service determines the entitlement to as well as the amount of a pension. A "full" pension will be received in retirement only if one has long-service and generally if one stays with the same employer. No pension whatever is paid unless one complies with the "vesting" rule in the plan. The law requires plans to provide for a pension to be paid when a plan member has 10 years' service with the same employer and has reached the age of 45. If an employee changes jobs often or never stays longer than 10 years with an employer who provides a pension he or she may never receive a pension. There is no requirement that short periods of service be recognized except as provided by the vesting rule.(17)

Deferred Wages

Most authors in the pension field and most briefs discussing the nature of a pension accept the notion of pensions as deferred wages.

Ontario Provincial Police Association, Brief 183

"In recent times the concept of the pension as being a form of 'deferred income,' i.e., earned by the employee, rather than being a reward for long-service, has gained acceptance. There has also been a growing discussion of moral responsibility to employees approaching the end of their career spans. The economic depression

that spread across the continent in the 1930s and wiped out the life savings of a large proportion of the population was a contributing factor in both the public and private sectors to the adoption of long-term policies with regard to retirement income." (page II-1)

Mr. R. Campbell, Brief 140

"The basic economic relationship between employer and employee is that the latter sells his service to the former for a remuneration. (page 1)

"Of the many forms of partial remuneration to the employee so-called 'fringe benefits' - one is a contribution by the employer to a pension arrangement for the employee....

"Pension contributions made by an employer as part compensation for services are morally at least, the property of the employees. The employer should have no rights to return any part of such contributions to himself, (except as he may have overpaid his obligation), or unilaterally to determine or modify the distribution of the contributions amongst the employees within a group or amongst groups of employees. If pension contributions are remuneration for services rendered then the amounts already contributed or due are on an individual basis, not a group fund subject to manipulation by others than the employee concerned." (page 2)

Ontario Public Service Employees Union, Brief 208

"This union regards the pension benefits received by workers as a form of deferred wage income. Because this income is deferred it is augmented by the operation of compound interest. If, however, it is legitimate to view pension benefits as deferred wages plus compound interest, then the so-termed employer 'contributions' towards the provision of these benefits are simply <u>redirected wages</u>." (page 4)

"...Few employers would agree to regard a dollar expended on pension contributions as being worth less to their employees than a dollar expended on direct wages, or insurance benefits. Let this union be clear in its position: as long as governments and employers take the position that 'a buck is a buck,' we shall take the view that it is the worker's 'buck' that we are talking about. The view that employer 'contributions' towards pension benefits are simply <u>re-directed wages</u> - that it is the worker's 'buck' - entails recognizing that workers' property rights extend to the <u>entire</u> assets of pension funds. All of the pension funds in which the members of this union participate are what have been termed contributory plans; that is to say, the employees' <u>re-directed wages</u> are matched by further payroll deductions. It should be evident

that the union rejects the fiction that our members' pension funds are financed equally by workers and by their employers. In our view, all of the contributions received by these pension funds are employee contributions. The distinction between payroll deduction and re-directed wages is a matter of form, not a matter of substance. To re-iterate, the property rights of workers extend to 100 per cent of the assets of pension funds." (page 5)

Canadian Pensioners Concerned Inc., Ontario Division, Brief 212

"Canadian Pensioners Concerned Inc. Ontario Division, submits that government (CPP) and private pension plans are deferred income payable after retirement. The assets and liabilities of these plans are of equal concern and responsibility to the beneficiaries of the plans, government and private plan sponsors." (page 1)

Toronto Stock Exchange, Brief 219

"Early industrial pension plans were viewed primarily as gratuities to employees for long and loyal service to the employer. As the economy became more industrialized and pension plans more prevalent, there was increasing interest in the view that employers, both government and corporate, had a moral obligation to provide for the economic security of retired workers. Growing out of this view was the concept that private pensions constituted a systematic and socially desirable method of releasing employees who were no longer productive members of the labour force. It gradually evolved that participation in a pension fund became a condition of employment. This provided assurance to an employer that, regardless of the workers' personal abilities to plan and prepare financially, retirees would be certain to have a post retirement income and not become an embarrassment to the employer or a burden on the state. Increasingly, however, group pensions have come to be generally accepted as a form of deferred wages. This concept views pension benefits as part of a total compensation package with which employers seek to attract workers in competitive labour markets."
(page 15)

Let us first consider the nature of wages in order to determine the grounds on which pensions may be viewed as wages. The payment of wages or other remuneration is one of four elements required at common law to establish an employer-employee relationship.(18) Wages are monies or other remuneration payable by an employer for services rendered by an employee. Wages are earned day by day.

The employee's contributions to a pension fund, deducted from pay, are wages being deducted from monies earned and payable. The employer's contributions are not so clearly wages. On a collective level they are part of the wage cost but on an individual level the employees may not have acquired a right to them. Pension payments are part of the labour

compensation cost of the employer, and pension costs are part of the cost of doing business like other payroll costs. Pension contributions to certain limits are tax deductible as are wages, and pensions are part of fringe benefits which attract workers.

However, insofar as the employee is concerned, in order to be considered as wages, employer contributions must be earned by the employee for services rendered and there must be a corresponding right to obtain the "wages" now or in the future. Let us consider a non-contributory plan with a 45 and 10 vesting rule. The employee makes no contributions to the plan and has a right to a pension if he or she is a member of that plan with 10 years service and attains age 45. Up to that point there is no right to a pension and no right to any contributions paid into the fund by the employer on account of that employee's service. Rights arise at age 45 with 10 years' service because certain conditions have been fulfilled. Up to that point the employee has a conditional interest rather than a benefit that is earned and payable day by day or year by year of service. Until vesting, the employee has no right to employer contributions and even on vesting the right acquired is to a deferred life annuity on retirement, not to the employer's contributions per se. The pension is essentially a promise to pay a certain amount in retirement based on earnings provided certain conditions are met. The employee must work sufficiently long with the employer to acquire a pension. The employee must live to normal retirement age to obtain a pension save for any early retirement provisions. The plan itself must continue to exist. The pension fund must have sufficient funds to pay the promised pension.

Furthermore, unlike wages, the employee cannot be said to have any ownership of the employer's contributions even though the Pension Benefits Act requires that employer contributions be held in trust in accordance with the plan and the act and employers may not appropriate the funds to their own use.(19) The employee has no control over the payment of the pension contributions or the investment of the pension funds. Indeed, in a contributory plan, in addition to not having a right to the employer's contributions, the employee has no control over his or her own contributions either.

It should also be noted that employer contributions are specifically excluded from the definition of wages for the purposes of the Employment Standards Act.(20) The definition of wages specifically excludes tips, discretionary bonuses, travelling expenses, and "contributions made by employer to a fund, plan or arrangement to which Part X of this Act applies." Part X deals with benefit plans providing various types of benefits including superannuation and retirement.

Finally, pensions being paid in retirement resemble wages in that the employee has established earned rights to the pension payments as a result of service rendered to the employer.

Thus, it would appear that given the nature of pensions with the lack of immediate earned rights and the lack of control or ownership by employees, pensions are not easily characterized as deferred wages at the present time even though most persons hold this view.

Savings

A large number of submissions to the Commission regard pensions as a form of saving. The following quotations are examples from the briefs.

Mr. D. Hannaford, Brief 65

> "The purpose of pension planning is for people to accumulate savings, to ensure that they have adequate incomes during their retirement years....The savings may be compulsory to some extent, in the form of government or some employer plans, but if the pension planning process is to be successful, people must understand its significance and how it works, and participate actively in it." (page 2)

Mr. R. N. Steeves, Brief 113

> "The basic purpose of pensions, in my opinion, is to help individuals provide for their retirement years by accumulating assets today that will provide a claim against the country's wealth tomorrow. As such, there are many alternatives that will achieve the purpose." (page 2)

Toronto Stock Exchange, Brief 219

> "Part of the Exchange's concern is that pension legislation in Canada has been characterized by tax incentives which favour the management of retirement savings, whether for employee groups or individual accounts, by trust companies and other institutional investors. While the Exchange has increasingly accommodated the needs of institutional investors it actively seeks to promote a larger number of independent participants in the market. Consequently, it is concerned about the extent to which taxpayers have been drawn into structuring their investments through institutions in order to obtain tax incentives rather than directly approaching investment opportunities on the basis of simple prospects for income and capital gain. In the view of the Exchange, tax neutrality or bias in favour of increasing the involvement of individuals in managing their pension savings should be a test against which this Commission measures proposals for pension reform." (page 78)

It is easy to understand the notion of pensions as savings. We think in terms of saving for retirement and postponing consumption by putting money aside. We accept the notion of individual thrift in

providing for the time when one will not work or is unable to work. Pensions seem a form of savings, but they differ insofar as control is concerned. In savings one chooses whether one wants to save or not. One chooses the form of savings: an RRSP with the resultant tax benefits, or stocks or bonds with the attendant risks, or savings certificates with a guaranteed return, or simply a bank account. One chooses the degree of control desired. One clearly owns the funds. The ultimate retirement benefit may be controlled. For example, the funds in an RRSP may be withdrawn at any time or they can be used to purchase certain annuities or to establish another vehicle called a Registered Retirement Income Fund.

In a pension plan, the funds are less easily identified as one's own than other forms of savings. There is no control over the funds or their investment by the employee. The element of voluntariness may be missing. Employees cannot determine the form of retirement benefit or choose to use any portion of the accumulation for any other purpose. Thus, pensions in their present development cannot aptly be called savings although elements of savings are present.

Group Insurance

A pension plan shares many aspects with group insurance. Retirement may be viewed as the risk of reduced income in retirement and pensions are insurance against this risk. The basic form of any pension is a life annuity.

Canadian Institute of Actuaries, Brief 225

> "It must be remembered that an employer pension plan is a group financial arrangement that can at best only approximate the average financial retirement needs of the members. Additional individual arrangements will be required to personalize the group benefit in most cases.
>
> "A government-sponsored plan for a whole society is the ultimate group plan with necessarily an even greater approximation to individual requirements."(page 13)

Life Underwriters Association of Canada, Brief 190

> "Despite the use of the word 'savings' in RRSP's the legislation clearly intends the savings to be used only for the purposes of a retirement pension. The CAC (Consumers' Association of Canada) is wrong in its position that the individual should be allowed the freedom to keep the capital invested throughout his lifetime and pass it on to his heirs. Estate building at the expense of the general taxpayers through tax deferral is hardly an acceptable concept.

"If this government wished to provide tax incentives for savings or investment, there is the machinery for doing this through such devices as the $1,000 interest and dividend deduction, the dividend tax credit, etc. It would be a simple matter for the government to increase these tax concessions if that were its intention. Pension plans and RRSP legislation were not designed for this purpose and hence cannot be so used without introducing a serious inequity into the tax system." (page 13)

Mr. D. Eastman, Brief 318

"The most common approach to retirement income is to use the common pot into which go the contributions of an employer and all employees. The general pot approach walks right into some tough philosophical and practical problems about equity. (e.g. of man and woman with same job and salary for 35 years and woman lives longer). The general pot system invites age biases as well as sex biases. (e.g. with 30 and out rule one retiring at 48 is more expensive than one retiring at 65 after 30 years' service.)" (page 4)

"I am a sceptical person, and have limited faith in the ability of actuaries and pension fund administrators to accurately predict an unpredictable future. Frankly, I feel much safer with the retirement account approach than with the general group retirement funding." (page 8)

In Brief 54, William Jones objects to not being permitted to transfer his own contributions to 'another government controlled plan of saving' such as an RRSP rather than being locked into a deferred annuity. He attached a letter he received from the insurance company involved which states:

"Among your comments on my letter of April 29, is the reference to 'my own money which is 75 per cent of that <u>invested</u>'. Your contributions and those of Cow and Gate were not invested but were to <u>purchase</u> a guaranteed annuity. The money became our property in return for our promise to pay a pension to you in the event you live, or a death benefit to your beneficiary in the event you die prior to receiving a pension, or a termination benefit if you terminated before 'locking-in'."

Marwell Management of London Limited, Brief 63

"Approximately one-half of those retiring are going to live beyond the 'average life expectancy' of people their age and the others are going to die before reaching that point. Those who live beyond their 'expected life' are obviously going to require more income to retire on than those who die early. The straight life annuity con-

cept is based on the premise that those who live a long life will be 'subsidized' by those who die early.

"It may be true that those living a long life after retirement may not have saved enough during their lifetime to support their gift of a long retirement, but if they do need a subsidy it is questionable if the people forced to subsidize them should be the unfortunate retirees who are slated for a shorter than average retirement.

"This shorter than average retirement may be the result of an accident or disease, or due to poor health or a terminal illness at the time of retirement. Independent of the reason for this shorter than average retirement, it is hard to understand why the funds they set aside for their retirement should be 'confiscated' to subsidize their more fortunate neighbours who happen to be blessed with a long life." (page 3)

Pension programs, as they exist today, resemble group insurance programs more than deferred wages or savings. In the first place pensions operate on the group pool principle. Pension contributions are put into a group pool and not into individual accounts. The employer generally contributes an amount fixed by the actuary based on the plan as a whole to comply with the funding requirements of law. The amount paid by the employer is the cost of providing the pensions after deducting employee contributions. Group arrangements for pensions have the advantages of low-cost administration and access to higher yield investments.

Secondly, pension contributions can be viewed as the insurance premiums paid for protection against loss of or reduced income in retirement. In disability or fire insurance premiums are paid to protect against loss as a result of these events. So too with pensions; one sets aside premiums to pay the cost of providing income in retirement. From the employee's point of view however, the risk of some reduction in income in retirement is a virtual certainty if one lives that long. In terms of certainty of risk, a comparison with life insurance is more apt. The analogy is less applicable in the sense that once one has fire or disability or life insurance one has protection. However merely being a member of a pension plan does not necessarily mean one is "protected." The various conditions referred to earlier must be fulfilled for participation to be meaningful.

Thirdly, cross-subsidies exist as in all insurance schemes. Short-term employees subsidize long-term employees. For example, if an employee is contributing 5 per cent of pay and the employer is contributing 5 per cent of pay and the employee terminates before vesting, the employee will obtain a return of his or her contributions. The 5 per cent contribution made by the employee because of that employee's service then benefits the remaining group of employees or lowers the employer's cost of providing a pension for the remaining employees.

There is also a subsidy as a result of interest paid. If an employee dies or terminates employment prior to vesting, the employee's own contributions are returned, often with interest. The interest returned is generally lower than the interest rate earned by the pension fund. Thus, the difference between the interest returned and the interest earned remains in the fund to benefit the group pool. There is a subsidy by those who may die at early ages. Those who do not live to retirement subsidize those who do. Similarly after retirement those who do not live long subsidize those who do. The subsidies of terminating and employees who die before retirement benefit the employer and those remaining in the group pool. This situation is desirable for the employer because the employer is really interested in rewarding the long-service employees and not employees who have gone to work for another. It is expensive to train new personnel. Unions have a similar interest to the employer in that long-service union members will benefit.

Thus we have seen that although pensions have aspects of long-service rewards, deferred wages, savings, and insurance programs, at the present time pensions are most closely related to a long-service reward and group insurance. The notions of pensions as deferred wages and savings may be viewed as essentially similar. It is time to reconsider the nature of pensions and see to what extent retirement income programs meet current desires for retirement. If retirement is viewed as an earned leisure period or as a time for a second career then the individual savings and deferred wage approach to pensions should be emphasized. If today's generation wants an option of early retirement as appears to be the case, pensions must be structured so that one's right to early retirement pension is earned and an undue burden is not placed on remaining workers.

Society has moved from the idea of a pension as the gift of a benevolent employer to the idea of individual entitlement not only to the employee's own contribution but to the employer's contribution, which is notionally allocated to the employee. It is a short conceptual step to an absolute individual entitlement to the interest earned on the employer's and employee's contributions and ultimately to the right of employees to control and manage the entire fund. In general the people of Ontario accept the idea of pensions as a deferred wage; these concepts are logical extensions of the deferred wage theory and will have profound effects on the design of pensions in the future.

It is important to remember however that in spite of the general acceptance of the notion, pensions are not in fact deferred wages. In detailed discussions to follow the Commission has kept in mind the present trend to view pensions as deferred wages with its emphasis on individual savings and earned rights.

NOTES

(1) The distinction between population aging and individual aging is described in Robert Clark, et al., "Economics of Aging: A Survey," Journal of Economic Literature, XVI(1978), p. 945.

(2) Morris M. Schnore, "Concerns and Expectations of the Old in Canada," A paper prepared for the National Symposium on Aging, Ottawa, October 25-27, 1978, pp. 2,14.

(3) Ibid., p. 14.

(4) Simone de Beauvoir, Old Age, Penguin Books, Middlesex, England, 1972, p. 34.

(5) Robert Clark, "Economics of Aging," pp. 927ff.

(6) Schnore, "Concerns and Expectations," p. 5.

(7) Daniel Jay Baum, The Final Plateau, Burns, MacEachen, Toronto, Canada, 1974, pp. 76ff.

(8) Beauvoir, Old Age, p. 10.

(9) Baum, Final Plateau, p. 75.

(10) Ibid.

(11) Ann Jamieson, "The Population of Ontario," pp. 3, 14, unpublished paper.

(12) Economic Council of Canada, People and Jobs, 1976, p. 172.

(13) Ibid., p. 118. Note that in 1973 investment income was 4 per cent, transfer payments were 6.8 per cent, and miscellaneous income was 1.9 per cent of family income.

(14) Selected Facts, Volume III.

(15) For the full discussion see Daniel Kubat, "Aging, Retirement and Pensions: A Survey of the Sociological Literature." Volume IX.

(16) Ibid.

(17) However, the Pension Benefits Act provides that benefits be funded as they "accrue" so that if a plan is wound up, an employee who is not vested may receive some benefit if funds are available.

(18) Sydney L. Robins, "Historical Treatment of the Employer-Employee Relationship," Special Lectures of the Law Society of Upper Canada 1976, p. 2.

(19) Pension Benefits Act, R.S.O. 1970, c. 342, Section 23a(3) as amended.

(20) S.O. 1974, c. 112 as amended.

Chapter 3

Development of Retirement Income Arrangements in Canada

The development of formal retirement income arrangements has occurred mainly in the twentieth century. Pensions themselves, however, have their origin in antiquity in pensions for those who had served the state. Roman legionaries were pensioned after years of service. Britain pensioned her sailors and other servants of the state for centuries. However, modern retirement arrangements began in the nineteenth century and early part of the twentieth.

There is no definitive Canadian history of retirement income arrangements. For this purpose the Commission has relied heavily on the reports of two previous inquiries: that of Leonard Marsh into Social Security for Canada, 1943; and of the Ontario Committee on Portable Pensions, 1961. There has been no major study of pensions in Ontario since 1961. This chapter will describe the development of pension plans in Canada including employment plans, Registered Retirement Savings Plans, and government programs designed to assist the elderly and to provide retirement income. The development of employment pension plans in the public sector will be described in detail in Volume VI.

EMPLOYMENT PENSION PLANS

Origin

Formal pension arrangements first appeared in the public sector. The first employment pension plan in Canada was established in 1870, three years after Confederation, for employees of the Dominion Government. There were certain other superannuation arrangements which began earlier such as those provided by some churches. The Methodist Church fund may be one of the oldest having origins in 1825.(1)

In Ontario a provincial plan for teachers began in 1917 and a plan for provincial civil servants was enacted in 1920.(2) Opposition to public sector pensions was not widespread although one opponent noted: "Superannuation and retiring allowances are class privileges, as we cannot be all civil servants."(3)

The first formal private sector employment plan in North America was established in 1874 by the Grand Trunk Railway of Canada.(4) It was a contributory plan; a year later the first non-contributory plan was provided by the American Express Company.(5)

Pension plans gradually spread, particularly after the turn of the century, to various groups of civil servants, municipal employees and employees of larger companies. In 1928 the first major North American study of employment pension plans showed between 500 and 550 formal and informal plans in force in the United States and Canada.(6) Eighty-five per cent of these plans had appeared since 1910, beginning with railway plans and spreading first to public utilities and financial institutions and then to manufacturing concerns.(7) Employers surveyed gave several reasons for establishing retirement systems, including humanitarian considerations and business objectives.

In Canada there were at least 172 formal pension plans by 1918, increasing to 600 in 1936.(8)

The first large-scale survey(9) of Canadian private sector pension plans was not conducted until 1937, when the National Employment Commission sent a questionnaire to 10,000 firms having 15 or more employees. The Commission found that 349,521 Canadians were employed by private employers who offered some form of retirement arrangement. The number of plans covered was 593. A year later the Industrial Relations Section of Queen's University conducted a more detailed survey of industrial concerns across the country.(10) That study reported on 120 plans covering 365,000 employees. Based on those data and on an analysis of the government's study, the Queen's researchers concluded that 70 per cent of wage and salary earners in Canada (including public sector employees) worked in establishments which made no definite or formal provision for retirement. Eligibility and service requirements in the plans made it impossible, however, to predict how many wage-earners would ever qualify for a pension.

The Queen's University survey described certain trends observable by 1938.(11) Pension plans generally provided that permanent employees were eligible, and membership was frequently compulsory. They provided for compulsory retirement at a specific age. Early retirement with an actuarially adjusted annuity was permitted. Plans adopted since 1929 provided for direct employee contributions. Usually employee contributions and company contributions were so arranged that each provided approximately half the necessary funds. Employees were grouped according to salary to provide the same rate of contributions and benefits.

The retirement allowance was in the form of a life annuity. Refunds of the employee's own contributions with or without interest were made in the event of termination of employment or upon death. Some plans provided for a deferred annuity on termination of employment. Practically all retirement plans were underwritten by life insurance companies.

The next major study was issued by the Dominion Bureau of Statistics for the year 1947. It surveyed 3,425 plans covering 915,709 employees (members and non-members).(12) It found that more than two-thirds of the reported plans originated after 1939.(13)

The period 1896 to 1930 saw the entry of two new provinces into confederation, the settlement of the west, the acquisition of millions of acres of new farm land and the building of two new transcontinental railways. Canada received over five million immigrants during this period. World War I accelerated the pace of industrial development, making good-paying jobs plentiful. In 1911 there were 8,001 manufacturing establishments in Ontario; by 1919 there were 16,343.(14)

Employment pensions flourish in a growing economy. If there is more than enough wealth to go around, money will be set aside for later; pensions will not be begrudged. It is not surprising therefore, that pensions took root in this period of prosperity. Just as on the individual level it is hard to save for a rainy day if all income is needed for present consumption, so too, on the corporate level. Companies struggling to survive in business will be reluctant to put money aside for future pensions.

Early pension plans were confined mainly to large firms and public sector employers. An employer had to be large enough to make group pooling arrangements feasible. Increased industrialization brought to an end the frontier economy, characterized by self-employed occupations.

A pension plan came to be a feature of the largest and most stable organizations. Many corporations did not survive the Depression; employees had to rely on the continued existence of the employer for the pension promise to be meaningful.

Growth

Development of pension plans began during the first half of the century and accelerated after the Second World War. From 3,000 plans in Canada in 1946, the number increased to 12,000 by 1960.(15)

The period beginning with the Second World War was one of economic expansion. It was a period of intense activity and a rising standard of living. Employment pensions flourished in the period of virtually continuous growth and prosperity during the 1950s and 1960s. This period from 1945 to 1974 witnessed real growth in personal incomes. In 1946, 12.6 million Canadians produced a GNP of $11.9 billion. In 1974, about

22.4 million Canadians generated a GNP of $147 billion. Even after adjustment for price increases, the growth in national output was 294 per cent. That period of secular growth meant unprecedented growth in personal incomes. As measured by the Industrial Composite, the average weekly wage in 1946 was $32.48. It rose 23 per cent in two years, doubled in the next fourteen, and continued climbing to $178 in 1974 and $260 in 1979. After deducting inflation during the period, the average weekly wage rose 271 per cent from 1946 to 1974.

Personal income per capita rose from $1,040 (Canada) and $1,261 (Ontario) in 1950 to $1,656 and $1,951 respectively in 1960, $3,129 and $3,705 in 1970 and $5,838 and $6,431 in 1975.(16)

Canada's economic prosperity coincided with massive demographic changes. The population grew from 12.6 million in 1946, to 22.4 million in 1974. That growth resulted from the postwar baby boom and the tide of immigration. There were about 70,000 babies born in Canada in 1941, increasing to 115,000 in 1951 and to almost 160,000 in 1961. The general prosperity contributed to the high fertility rate. The baby boom meant a demand for consumer goods like clothing, increased demand for housing, and expansion of government services in education and health care.

The immigration boom meant an increase in the numbers of immigrants from less than 20,000 per year during the Depression and war years to a peak of 280,000 in 1957, and about 100,000 per year thereafter.

With economic growth and the demand for workers, industrialization and urbanization continued. From 1900 on Canadians left the farms and turned to the cities. The proportion of rural dwellers in Ontario decreased from 43 per cent in 1921, to 28 per cent in 1951. By 1961, less than 10 per cent of the work-force was employed in agriculture.(17)

Concurrent with Canada's real economic growth during the period was growth in employment. From 1961 employment in Canada increased by 50 per cent, with male employment increasing by 36 per cent between 1961 and 1974 and female employment by 89 per cent.(18) Employment of young people 14 to 24 years rose by 91 per cent. The Economic Council of Canada found four factors contributing to the 3.3 per cent average annual increase of the labour force in Canada since the early 1960s: the increase in the working-age population resulting from the baby boom; the flow of immigrants, who have traditionally accounted for 20 to 35 per cent of labour force growth; the decline in emigration from Canada since 1968; and the growing propensity of women of all ages to work.(19)

The twentieth century generally saw increased labour force participation by women. The movement of women into industry occurred at the same time as a decline in the relative importance of agriculture as an employer and the shift of population from country to city. During the 1950s and 1960s the employment of women accelerated rapidly. "The

number of women in gainful occupations in Canada, which has multiplied almost five times between 1901 and 1951, more than doubled again between 1951 and 1967."(20) In 1901, one worker in 10 was a woman; by 1967, one in three was a woman. Today two in five workers are women. In 1978, there were 4,232,000 female workers, an increase of 79 per cent from 1967.

The greatest change in female work patterns has been in the increased work participation of married women. In 1951, only 15 per cent of married women worked outside the home.(21) By 1966 this figure had doubled to 31.6 per cent and there has been a further increase to 50.6 per cent in 1978. "This increased participation of married women in the labour force has changed its composition. In 1951, 38 per cent of the female work-force was married. By 1978, this figure had increased to 61.7 per cent, or almost two-thirds of all working women."(22) Thus continuous economic expansion created job opportunities for women.

Employment pensions experienced strong growth in membership, numbers of plans and assets. Table 1 shows the growth in the numbers of pension plans and members in Canada from 1960 to 1978:

Table 1
Pension Plans and Membership in Canada, 1960-1978

	Public sector		Private sector		Total	Total
	Plans	Members	Plans	Members	plans	members
1960					8,920	1,815,000
1965					13,660	2,345,648
1970					16,137	2,822,336
1974	739	1,469,615	11,540	1,102,082	15,853	3,424,245
1976	712	1,755,273	11,913	2,147,225	15,625(a)	3,902,498
1978	661	1,854,514	14,434	2,338,730	15,095(a)	4,193,244

a The decline was primarily among small plans.

Source Statistics Canada, Pension Plans in Canada, 1976 and 1978.

Historically participation in pension plans has grown at an annual rate of 4 per cent to 5 per cent; but over the two years between 1974 and 1976 the growth rate increased to 7 per cent per annum.(23) The recent growth in membership is mainly the result of new multi-employer plans.

In addition to growth in absolute numbers, pension plans increased their coverage of the labour force. That is, there has been an increasing proportion of employees who are members of pension plans. Information on coverage before 1960 is not satisfactory because national pension plan data were not collected on a regular basis until 1960. The coverage figure of 30 per cent for 1936 found by the Queen's University study was high because the data related to all employees in establish-

ments with pension plans whether or not the employee was a member of the plan.

The Ontario Committee on Portable Pensions reporting on pensions in 1961 found coverage was about 30 per cent of the total labour force and 40 per cent of the employed labour force, i.e., after unemployed, self-employed and family workers were excluded.

The Committee found that two-fifths of employees in Canada were members of plans, one-fifth worked for employers with plans but were not members themselves, and another two-fifths worked for employers without plans. Self-employed workers or family workers were 20 per cent of the whole labour force in Canada and 16 per cent of the labour force in Ontario.

The Committee reported the following data for 1957:(24)

Total employees with jobs		4,400,000
Employees in organizations with plans		2,700,000
a) enrolled in plans:	1,800,000	
b) non-members:	900,000	
Employees working for employers without plans		1,700,000

By 1970 Statistics Canada found that 39.2 per cent of paid workers in Canada were members of pension plans.(25) This increased to 40.7 in 1974, decreased to 38.8 per cent in 1976 and increased to 44.1 per cent in 1978. These percentages apply pension membership to paid workers as defined by Statistics Canada where the self-employed and unpaid family workers are excluded. Thus there has been an increase on the Statistics Canada basis from 34 per cent in 1960, 39 per cent in 1970, to 44 per cent in 1978.(26) The increase in overall coverage has been less impressive than the growth in numbers of plans, members and assets. The rapid increase in coverage in the public sector, to almost 100 per cent at present, masks a slower growth rate in coverage of private sector plans.

Assets

Assets of pension plans in Canada grew from 5.4 billion in 1960 to 33.7 billion in 1976 (book value). Trusteed plans account for about 75 per cent of all pension fund assets. Most available statistical data relate to these trusteed plans. The following tables show the growth of assets of all plans and the growth of assets for public and private sector trusteed plans.

Table 2
Growth of Pension Assets in Canada, 1960-1977

	Assets (book value)					
	1960	1965	1970	1974	1976	1977
	(Millions of dollars)					
Trusteed	3,583	6,541	11,059	18,084	24,879	29,270
Life Insurance						
(a) Group Annuities	1,208	2,333	3,138	3,999	4,844	5,355
(b) Segregated Funds	--	94	545	2,071	3,036	3,565
Canadian Government Annuities	600	634	631	608	601	596
Total	5,391	9,602	15,373	24,762	33,360	38,786

Source Statistics Canada, Trusteed Pension Plans, 1974, 1977.

Table 3 shows that assets in trusteed pension plans in the public sector have increased from about 40 per cent of all trusteed assets in 1960 to 49.5 per cent or almost half in 1977.

Table 3
Assets, Trusteed Pension Plans by Sector, 1960-1977

	1960	1965	1970	1974	1976	1977
	(Millions of dollars book value)					
Public Sector	1,419	2,597	4,881	8,572	12,223	14,729
Private Sector	2,164	3,944	6,178	9,712	13,011	15,008
Total	3,583	6,541	11,059	18,284	25,234	29,737

Source Statistics Canada, Trusteed Pension Plans, 1974, 1977.

Contributions

Annual contributions to pension plans have continually grown, reaching $6.2 billion in 1977, over twice the amount contributed four years earlier.(27) Table 4 shows contributions to pension plans by employees and employers for selected years from 1965.

The proportion of employee contributions has steadily declined from 44 per cent in 1965, to 34 per cent in 1977. The proportion of employer contributions has increased from 56 per cent in 1965, to 66 per cent in 1977.

Annual employee contributions by sector show a continuing decline in each sector although it is more pronounced in the private sector.

Employee contributions in the private sector have declined from one-third of all contributions in 1970, to 24 per cent in 1977. In the public sector, employee contributions have declined from 44 to 42 per cent in the same period. Employer contributions in the private sector have increased from two-thirds of all contributions in 1970 to three-quarters in 1977.

Table 4
Contributions to Pension Plans in Canada by Employees and Employers, 1965-1977

	1965	1970	1973	1977
		(Thousands of dollars)		
Employee contributions	516,151	674,705	1,058,133	2,141,015
Employer contributions	653,399	1,052,796	1,933,000	4,074,153
Total	1,169,550	1,727,501	2,991,133	6,215,168

Source Statistics Canada, Pension Plans in Canada, 1976 and 1978.

Table 5
Contributions to Pension Funds in Canada by Sector, 1970-1977

	1970		1973		1977	
Contribution source	Public sector	Private sector	Public sector	Private sector	Public sector	Private sector
			(Millions of dollars)			
Employee	427.3	247.4	678.1	380.0	1,519.0	622.0
Employer	544.6	508.2	975.3	957.7	2,076.0	1,998.2
Total	971.9	755.6	1,653.4	1,337.7	3,595.0	2,620.2

Source Statistics Canada, Pension Plans in Canada, 1976 and 1978.

Table 6 shows income and expenditures for selected years from 1960 to 1977 for trusteed pension funds.

Statistics Canada notes that while the outgo for pension payments has been steadily increasing in absolute dollar amounts, it has remained fairly constant as a percentage of total expenditures, fluctuating between 60 per cent and 71 per cent from 1960 to 1977. The cash withdrawals in 1977 included $167 million paid to terminating employees, $82 million transferred to other funding agencies and nearly $19 million withdrawn in respect of discontinued plans.

Table 6
Income and Expenditures, Trusteed Pension Funds, 1960, 1965, 1970, 1974, 1976, and 1977

	1960	1965	1970	1974	1976	1977
			(Millions of dollars)			
Income						
Employer contributions	230	403	658	1,417	2,259	2,722
Employee contributions	160	271	396	711	1,133	1,198
Investment income	152	306	546	1,164	1,639	2,044
Other(a)	8	18	25	69	73	141
Total Income	550	998	1,625	3,361	5,104	6,105
Expenditures						
Pension payments	107	197	377	754	1,037	1,195
Cost of pensions purchased	5	8	16	26	35	37
Cash withdrawals	30	84	110	201	248	280
Administration cost	1	5	12	22	32	43
Net loss of sale of securities	8	2	99	99	93	117
Other	2	7	15	68	9	13
Total expenditures	153	303	629	1,170	1,454	1,685

a Includes net profit on sale of securities.

Source Statistics Canada, Trusteed Pension Plans: Financial Statistics, 1977, p. 12.

Characteristics

Until 1960, contributory plans were the prevailing pattern. In 1960, only 7 per cent of all plans were non-contributory, increasing to 24 per cent in the 1970s.(28) The trend in membership is not so sharp.

Table 7
Proportion of Members in Contributory and Non-contributory Plans, Canada, 1960–1978

	Contributory plans	Non-contributory plans
	(Per cent)	
1960	79.5	20.5
1965	77.7	22.3
1970	78.0	22.0
1974	75.1	24.9
1976	73.9	26.1
1978	71.7	28.3

Source Statistics Canada, Pension Plans in Canada, 1978, p. 23.

In Ontario the percentage of members in non-contributory plans is slightly higher than for Canada as a whole at 31.1 per cent in 1978. The trend to non-contributory plans is chiefly in the private sector since almost all public sector plans are contributory. In the public sector in Canada contributory plans covered 98.1 per cent of members in 1970 and 99 per cent of members in 1978(29) while in the private sector contributory plans covered 61.7 per cent of members in 1970, and 50 per cent in 1978.(30)

The vast majority of members of pension plans are in defined benefit plans, that is, plans which provide a specified pension based on length of service and future salary. For example the employer promises to pay a pension of 2 per cent of average annual earnings for the five years preceding retirement for each year of service or 1 per cent of earnings averaged over an employee's membership in the plan for each year of service or so much a month for each year of service. Defined benefit plans are contrasted with defined contribution plans. Defined contribution plans are known as money-purchase plans since the employer and employee contribute a percentage of earnings and the pension is the annuity which can be purchased with the total contributions accumulated with interest.

Defined benefit plans have maintained their dominant position since 1960.

The proportion of members in final earnings and career average earnings plans has remained constant at approximately 75 per cent since 1960. Money purchase plans declined from 60 per cent of plans covering 13 per cent of members in 1960 to 43.2 per cent of plans covering 4.8 per cent of members in 1978. Among defined benefits plans there has been a gradual decrease in career average plans and a gradual increase in final earnings and flat benefit plans.

Final earnings plans provide a pension related to earnings at or near the end of a person's career and reflect the notion that retirement income should bear some relationship to one's earning capacity just before retirement. In addition, final earnings formulas reflect expected increases in general wage levels and thus have built-in inflation protection. Career average pensions on the other hand are based on the low-earnings earlier years as well as those of higher earnings. In terms of design therefore final earnings plans are more popular and are considered by many to be the best design of all plan types.

A trend towards higher benefits developed in the last half of the 1960s and continued into the 1970s.(31) In 1965 just half of the members of final earnings and career earnings plans were entitled to a pension credit of 2 per cent or more of earnings for each year of credited service. This proportion increased steadily to 70 per cent in 1974 and 75 per cent in 1978. In 1965, 81 per cent of members of flat benefit plans were in plans providing a benefit rate of less than $5 of monthly

pension for each year of credited service compared to 8 per cent in 1978. In 1978, about 65 per cent of members of flat benefit plans have a benefit rate of $8 or more.

Table 8
Pension Plans in Canada by Type of Plan, 1960-1978

Type of plan	Percent of members by type of benefit 1960	1965	1970	1974	1978
Defined benefit plans					
Final Earnings(a)	49.8	48.9	50.9	54.3	58.7
Career Average Earnings(b)	25.1	28.4	24.1	20.1	14.3
Flat Benefit	9.5	14.0	15.0	18.2	20.6
(Sub-total)	(84.4)	(91.3)	(90.0)	(92.6)	(93.6)
Money purchase	13.0	6.5	4.9	5.1	4.8
Profit sharing	1.3	1.2	0.8	0.6	0.5
Other and composite	1.3	1.0	4.3	1.7	1.1
Total	100	100	100	100	100

a Includes Final Earnings where pension is based on a fixed percentage of the last year's earnings, Final Average Earnings where pension is based on an average of earnings for a final number of years (say 5) immediately preceding retirement, and Average Best Earnings where the pension is based on a fixed percentage of average earnings over a specified period of best earnings such as 2 per cent of the 5 highest years in the 10-year period before retirement.

b The pension is based on a percentage of earnings for each year of service or membership in the plan.

Source Statistics Canada, Pension Plans in Canada, 1978, p. 30.

In the event of death after retirement, plans covering about 20 per cent of members in the private sector in Canada in 1978 provided no benefits. This percentage has remained constant since 1970. Those providing a widow's pension or survivor pension in the private sector covered 23.4 per cent of members in Canada in 1978 up from 14.3 per cent in 1970. Throughout the 1970s in the public sector in Canada, 70 per cent or more of members were in plans with a survivor pension.

Vesting

Historically a vesting rule has been provided almost universally in pension plans but Statistics Canada in Pension Plans in Canada 1974 observes that prior to 1965 such vesting was more apparent than real. Its 1965 survey showed that of 243,000 plan members who terminated employment in that year, less than 3 per cent obtained a deferred pension. Legislation by several provinces and the federal government in the mid-

1960s required vesting, usually after age 45 and 10 years of qualifying service. After such legislation there was a sharp reduction in the number of members in plans which provided no vesting from 22 per cent in 1965 to less than 1 per cent in 1978.

There is a trend to less stringent vesting conditions observed between 1965 and 1978. In 1965, 36.9 per cent of members were in plans with immediate vesting or vesting after 10 years or less of service or participation compared to 64.7 per cent in 1978.

Shortcomings Found by Portable Pensions Committee

It is useful to examine the shortcomings found by the Committee on Portable Pensions in its 1961 report and to ascertain to what extent these shortcomings have been remedied.

The first shortcoming found by the Committee was that many employees who worked for employers with plans did not join. One-third of employees in 1957 did not belong to plans although working for employers with plans. The Committee found that the restrictions on entry into pension plans kept membership down; age requirements and lengthy service requirements were cited. It recommended that the maximum waiting period be two years.

The second shortcoming was the high proportion of enrolled workers whose pension accumulation did not come to fruition. The committee called this a "high wastage of pension accounts," referring chiefly to persons who moved from one employer to another. At that time some plans had no vesting rule and many had long service requirements. The Committee found that the preservation of pension benefits would increase the worker's economic security, remove a barrier to the free movement of labour and reduce the burden on government old age assistance programs. This could be achieved if the part of the pension purchased by employer contributions became vested in the worker at the time of job termination and if there were restrictions on refunding the worker's contributions. The Committee recommended that vesting be required on a graduated basis from age 30 to 34 with 20 per cent vesting at the age 30 increasing 20 per cent a year to 100 at age 34. The Committee found vesting at specified ages preferable to vesting after a specified period of service (a departure from the prevailing practice) because at the middle and higher ages the need for vesting existed regardless of length of service.

The Committee also recommended that 20 per cent of employee contributions be locked in at age 30, increasing 20 per cent a year to 100 per cent at age 34 and over.

A third shortcoming was the limited number of plans. The Committee found that 30 per cent of the labour force (including the unemployed, self-employed and family workers) and 40 per cent of the total employees with jobs were members of pension plans. The Committee found that

employers in the uncovered area generally had small staffs or seasonal workers.

The Committee was convinced that the expansion of pension plans would proceed neither quickly enough nor far enough to meet the social needs unless government inducements or compulsion were invoked. The Committee therefore recommended that all employers with 15 or more employees should be obliged to introduce pension plans.

A fourth and less serious shortcoming was the limited benefit paid in the event of death before retirement, especially in non-contributory plans.

A fifth and especially serious shortcoming was the unevenness of government supervision and inspection. The first and only regulation of pension plans was that exercised by the Department of National Revenue. (32) Individuals had been allowed to deduct pension contributions to registered plans since 1919, employers since 1917. Certain limits on the amount of deductions allowed were imposed from 1936, but federal regulation was slight before 1947. Exceptions to federal regulation arose when the employer was not subject to corporation or personal income tax and when the plan was non-contributory. In 1950 the "pension blue book" entitled "Statement of Principles and Rules Respecting Pension Plans for the Purposes of the Income Tax Act" provided for vesting of the employer's contribution after 20 years' membership and attainment of age 50. In 1959 new rules were announced in Information Bulletin No. 14 and the vesting rules were not continued. Constitutional reasons were given for withdrawal of vesting requirements.

There was no other regulation or inspection of pension plans. However, life insurance companies were inspected and regulated in their business to ensure that their contractual liabilities including pension liabilities would be met in full. In 1960, insured plans accounted for one-third of all plans (whether expressed in terms of assets or covered employees). Trusteed and non-insured plans constituted the remainder which were generally administered by trust companies.(33) The capacity of these pension funds to meet pension liabilities was not subject to government review. (Non-insured plans include pension funds managed by life insurance companies in a branch of their business known as deposit administration, without assuming responsibility for the ability of a plan to provide the specified benefits.)

As for public sector plans, some governments and agencies issued reports and occasional valuations.

The Committee found that many plans in both the public and private sector would not have sufficient assets if the employer ceased operation, particularly in terminally funded plans and those that paid pensions whose amount was based on some average of final earnings. (Terminal funding means the employer does not systematically set aside monies

to pay for pensions, but undertakes to pay for the pension at the point of retirement.)

The Committee recommended that pension plans and annual statements of assets and liabilities and income be filed in a government office and that an actuarial certificate be required every few years.

The sixth shortcoming was the possibility, amounting in some cases to certainty, that pension plans set up economic forces that reduced employment opportunities for older workers. The Committee found that rates of unemployment were considerably higher for older workers than for younger workers, although the causes of unemployment were not exclusively confined to pensions.

Some plans did not accept members over the age of 45 or 50. Employers defended this practice because they would have to provide disproportionately large pensions for those with a short record of service late in life. Hiring older workers meant additional pension costs if they became plan members. The Committee found that some types of plans and some methods of funding offered considerable financial inducement to age discrimination. It concluded that contributory defined benefit plans and flat benefit plans differentiated "to a disturbing degree between old and young, and hence may be regarded as inimical to employment of the elderly." Only the money-purchase plan was found to be entirely neutral with respect to age. Non-contributory defined benefit plans ranked between contributory defined benefit plans and flat benefit plans with regard to age discrimination.

The Committee felt that their recommended vesting and eligibility rules would encourage the employment of older workers.

After the report of the Committee the Province of Ontario introduced legislation in 1963, "to provide for the Extension, Improvement and Solvency of Pension Plans and for the Portability of Pension Benefits."(34) The legislation required employers with more than fifteen employees to establish a standard pension plan to become effective on or before January 1, 1965.

The standard pension plan provided for eligibility between the ages of 30 and 70 and the payment of a pension benefit (annuity) at age 70. The plan could use a career average formula of 1/2 per cent of monthly remuneration up to $400 per month for each year of eligible employment, a money-purchase formula of 1 1/2 per cent, 2 per cent and 3 per cent at ages 30, 45 and 55 respectively of the first $400 of remuneration per month with interest of not less than 4 per cent, or a flat benefit formula of $2 a month for each year of eligible employment. The legislation did not deal with cost-sharing or require employee contributions.

The act provided for the establishment of the Pension Commission of Ontario, the registration of plans, funding of pension plans to assure

solvency, immediate vesting and locking-in at age 30 in the standard plan, and authority to establish a central pension agency to hold pension benefits transferred from employment plans when employees with vested rights changed jobs.

Supplementary pension plans could be registered to provide additional benefits and these plans had to provide for a deferred annuity at termination of employment for anyone who had reached the age of 45 and who had been an employee for 10 years.

The provisions of this legislation relating to the compulsory establishment of a standard plan were repealed in 1964.(35) In the early 1960s discussions had begun concerning the enactment of a national earnings-related pension plan and the Ontario mandatory plan never came into effect. There was no outcry at the time about the requirement to have a compulsory plan and its failure to be implemented was a result of federal-provincial negotiations leading to the enactment of the Canada Pension Plan in 1965.(36)

The balance of the legislation came into effect; it kept other features of the original legislation such as the establishment of the Pension Commission of Ontario, the 45 and 10 vesting rule, the requirement to report and to fund pension promises as required by the regulations. However, the adoption of a pension plan became voluntary on the part of the employer.

As to the shortcomings found by the Committee, some are still apparent, while others cannot be assessed due to lack of data. For instance, we cannot ascertain from Statistics Canada or the Pension Commission of Ontario the number of persons who are not members of plans although working for employers who provide plans. Reasons for such non-membership are individual choice or the operation of eligibility conditions. Plans covering one-quarter of membership have no conditions for membership, 10 per cent have a minimum service requirement, 18 per cent have minimum age requirements and the balance are combinations of minimum and maximum age and service requirements.(37) Our consumer survey shows that of 445 respondents whose most recent employer had a pension plan, 45 or 9.2 per cent stated they were not eligible to join (22 per cent for the second most recent employer and 24 per cent for the third most recent employer). The percentages of those not eligible to join were traced to the previous six employers and ranged from 8.4 per cent to 33.1 per cent. Of 445 respondents whose most recent employer had a pension plan, 419 joined the plan. We have no information on the particular age and service requirements for eligibility. None of the briefs to the Commission indicated that the lack of minimum eligibility rules is a problem. It should be noted however that it is possible to exclude an employee from participation in a pension plan by requiring a minimum age for access without contravening age discrimination regulations.(38) However, the Pension Benefits Act contains a provision which

may be used to prevent arbitrary eligibility rules and will be discussed in detail later.

Ontario legislation, however, has dealt with the problem of maximum age limits for entry. In 1978, plans with 9.3 per cent of members were in plans that provided a maximum age for eligibility membership and a further 7 per cent were in plans that provided a maximum age and years of service.(39) In its 1975 report, the Task Force on Employee Benefits under Part X of the Employment Standards Act found that employers tend to be reluctant to allow new older employees to enrol in their pension plans.(40) The Task Force found that 34.6 per cent of plans had maximum age limits for entry below age 65 and most of these (77.8 per cent) had maximum eligibility ages between 55 and 64. After that report, legislation prohibited maximum ages for access to plans except that a plan may limit the maximum age to join to the normal pensionable age where that age is under 65.(41) Thus if a plan provides for a normal pensionable age of 60, new employees age 60 and over may be excluded. Normal retirement age is 65 in plans covering 69.9 per cent of members in 1978.(42) (For a detailed discussion of normal retirement age see the chapter on Retirement Age.)

The second shortcoming identified by the Committee was the lack of portability. Today, employment pensions still are not portable in the sense of being readily transferable. However, the vesting rule required by legislation has assured that a pension will be payable if a member is age 45 and has 10 years' service or membership in the plan.

The Pension Benefits Act permits a transfer on termination of a pension benefit credit arising from a deferred life annuity to another pension plan or registered retirement savings plan if the monies are locked-in as required for a deferred life annuity under the act.(43) The Pension Commission takes the position that before a transfer is allowed the plan must permit such a transfer. Therefore a credit cannot be transferred at the option of the employee. Few plans provide for such a transfer. In the public sector, provision is made through reciprocal transfer agreements for recognizing other public sector employment and a measure of portability exists for changes from one public sector employer to another.

The third shortcoming, partial coverage in the private sector, has remained apparently stabilized at 40 per cent based on Statistics Canada figures. Coverage in the public sector is almost 100 per cent. The Commission has done its own study of coverage which will be discussed in Volume II.

As to the fourth shortcoming, the lack of benefits on death before retirement, in 1970, 12.4 per cent of members were in plans which provided no benefit on death before retirement (14 per cent in 1974 and 15.5 per cent in 1978). In 1978, 23.1 per cent of members were in plans which gave a refund of employee contributions; 4.0 per cent were in

plans which gave a refund of vested employer contributions; 44.7 per cent were members in plans which provided a spouse's pension; and 11.8 per cent refunded both employee and vested employer contributions. Almost all plans in the public sector now provide a benefit or refund on death before retirement and 71.7 per cent of members are in plans which provide a spouse's pension. In the private sector, 27.6 per cent of members receive no benefit on death before retirement. Non-contributory plans generally provide either surviving spouse's pensions or no benefits; there are no employee contributions to be refunded. It should be noted that group insurance may be and is often provided outside the pension plan itself.

The fifth shortcoming was the unevenness of government supervision and inspection. Since 1961, legislation similar to the Ontario Pension Benefits Act (1965) has been passed in Quebec, Alberta, Saskatchewan, Nova Scotia, and Manitoba. The federal government has enacted similar legislation for its employees and for employees of federal undertakings. In addition, most pension plans must comply with the requirements of the Department of National Revenue. The Department publishes Information Circulars which set out the conditions under which a pension plan can be registered so that contributions are tax deductible. Although not contained in the Income Tax Act or regulations, these conditions constitute a great deal of control governing most aspects of plan design including funding, investment, contributions, and levels and types of benefit. As a matter of practice, the Department of National Revenue does not register a pension plan unless it is also registered in those provinces having pension benefit legislation. The question of jurisdiction over pension plans and the desire for uniformity is discussed in Volume II.

A sixth shortcoming was the reduced employment of older workers. Today, unemployment of older workers is less severe than found by the Committee in 1961. The following table shows unemployment rates by age in Ontario for selected years.

Table 9
Unemployment Rates by Age, Ontario, 1956-1975

	All ages	14-19	20-24	25-44	45+
	Annual average (Per cent)				
1956	2.4	4.3	3.2	2.0	2.1
1960	5.4	11.4	6.9	4.5	4.5
1965	2.5	6.7	3.0	1.7	2.3
1970	4.3	10.8	6.0	3.2	3.0
1975	6.3	11.2(a)		5.0	4.1

a Age groups combined for 1975 onwards.
Source Ontario Statistics, 1977, Vol. 2, p. 354.

Problems of unemployment have now shifted to the young. In 1978, 46 per cent of the unemployed in Canada were between the ages of 15 and 24. Changes in 1975 limited the use of maximum eligibility ages. However, the Conference Board of Canada in its 1979 report, Mandatory Retirement Policy: A Human Rights Dilemma found that older workers were not hired by many survey respondents because of the impact on pension costs. Consideration was given to whether the existence of pension plans may inhibit job mobility. Our sociologist, Dr. Kubat, advised that there were no Canadian studies to determine whether the existence of a pension plan is a factor in job mobility although a reasonable assumption is that a loss of pension rights would be a consideration in the decision to change employment. However, job mobility tends to be highest at early ages, while those over 45 are generally more "stable."

The problems of inadequate coverage and lack of portability have not changed significantly over the past twenty years. Most improvements have occurred in the public sector where coverage is virtually complete and some real portability exists. Public sector employees constitute 40 per cent of all plan membership. With respect to coverage and portability, private sector employment pension plans have not substantially improved. Where improvements have occurred such as the 45 and 10 vesting rule, they are often the direct result of government intervention and regulation. Improvements in supervision and inspection and funding are a result of pension benefit legislation. There has been, however, some improvement in the vesting rules from the legislated minimum of age 45 and 10 years service. Plans providing vesting on termination after 10 years service at any age covered 29.8 per cent of members in 1965 and 69.4 per cent in 1978.

Looking at the development of employment pensions over the past twenty years, there is reason to question whether major improvements will be made in the absence of further government initiative.

GOVERNMENT RETIREMENT INCOME PROGRAMS

Old Age Pensions

Until this century there were few old age pensions. One worked as long as one was able and periods of "retirement" were relatively short. The elderly poor were usually cared for by other members of the family, and assistance was available through municipal relief or private charity. Ontario developed a comprehensive network of municipal homes for the disabled and poor, including the aged poor.(44) A 1903 act required all counties to establish homes by 1906, and these co-existed with local municipal homes.

Pensions for the elderly had been discussed in Canada since the early twentieth century. A broad social security program was first enacted in Germany in 1889 and an income-tested pension program was

established in England in 1908. Canada began an annuities program to encourage saving in 1908. In 1925 England established a contributory social security plan which provided flat benefits for the elderly; the German and other systems were wage-related. By 1928 all European countries had established contributory old age insurance programs.

By the mid-twenties a consensus began to emerge in Canada that the government should provide a monthly pension to the elderly who were otherwise destitute. In 1927, the Dominion government established Canada's first government pension program, providing $20 a month at age 70 to persons who qualified on the basis of a means and income test.(45) The idea of a straight government grant to the elderly gained support for many reasons. Old age was considered to be akin to permanent disability because of the problem of finding employment. It was also recognized as a universal condition. The Marsh Report of 1943 described the situation as follows:

> "...only in the case of old age pensions is there a full acknowledgement of social responsibility by all nine provincial governments and the federal government as well. The nature of the problem, however, is sometimes not so thoroughly considered. There is nothing in old age, of and by itself, which requires that social security provision be made for it. If, for example, medical science were able to discover some secret by which the active workspan of men and women could be prolonged to one hundred years of age, no one would think of suggesting old age pensions at seventy. It is only because increasing age associates with itself the increasing inability to perform useful work that we have to consider the problem at all. This point of view, which makes of old age a disability, permanent and increasing to the extent that prospects of eventually returning to employment are practically nil, reinforces the point made earlier that the nature of provision for old age and for permanent disability should be similar, if not identical. Old age is, in short, a specialized aspect of permanent total disability so far as the employment market, the wage structure, or the ability to earn and maintain a level of income are concerned." (46)

There were several factors in the emerging consensus. First, real hardship existed for the elderly. In addition, with the increasing urbanization of Canada, many urban residents were separated from families who might otherwise contribute to the support. Second, introduction of a government pension did not appear to undermine the work ethic. By limiting it to persons in their seventies and older, the government could not be accused of encouraging shiftlessness, laziness, and improvidence. Finally, the labour movement was gaining strength and it had been seeking state pensions for many years.

The first old age pension program provided a maximum pension of $240 a year. In addition, pensioners could have outside income up to

$125 a year without reducing the pension. Thus, the total possible income was $365 a year.(47) Because of constitutional limitations the Dominion government could not implement the pension program alone and co-operation of the provinces was required. The act authorized the federal government to enter into an agreement with the provinces to pay half of the cost of pensions. Ontario joined the program in 1929, but it took ten years for all the provinces to join. Some provinces felt they could not afford their half share of the cost and there were jurisdictional arguments about Ottawa's "intrusion" into provincial rights. The program was not changed until 1952 when a constitutional amendment gave jurisdiction to the federal government in the field of old age pensions.

The Old Age Pensions Act of 1927 was one of the first pieces of social security legislation in Canada. Few other income replacement or income security programs were in existence at the time. Workmen's compensation legislation began in a limited way with the Ontario Workmen's Compensation for Injuries Act of 1886, replaced by a comprehensive statute in 1914. Little other social legislation existed until the Depression, except for benefits for veterans after World War I. The Ontario Industrial Standards Act set a minimum wage for men in 1936, a minimum wage for women having been legislated in 1920. There were no changes in the Old Age Security Act until 1952, except for providing in 1939 that the blind were eligible for benefits.

The Marsh Report (1943) looked at the whole field of social welfare programs, including the federal-provincial pension program which had been in operation for fifteen years. It criticized the Old Age Pension program, particularly its administration. Administration varied from province to province; in particular it was subjective and uneven in the approach to the means test. An income value was assigned to assets whether or not income was produced. Children were assumed to contribute to the support of parents whether or not they did so in fact.

The report found that a large percentage of aged people were in need of assistance but that many were refused by the technical operation of the 1927 program. It was found that 50 to 65 per cent of persons over 70 were dependent upon public assistance.(48) The report noted, "in no province can it be said that the old age pension administration carries out an adequate social treatment of the problem of assistance and service to the aged person."(49) At that time, the Province of British Columbia and Alberta provided an additional $5 per month and Ontario provided supplementary medical services.

The Marsh Report found that the trend was clearly in the direction of compulsory contributory insurance for retirement and old age. "Contributory insurance combines the best features of the individualist and of the collectivist approach, in that it binds every citizen of the community to the need of providing some measure of security for himself in the future, and at the same time signalizes certain responsibilities

which the individual carries to help meet the pooled risks of his fellow citizens."(50)

A collective approach to economic security for all Canadians including the elderly became entrenched after the Depression of the 1930s. The Depression shattered people's faith in the ability of the individual as well as of communities to meet their own social and economic needs. The realization that widespread economic disaster could occur made people search for solutions through government action at the national level. Unemployment in cities reached a peak of 50 per cent in 1933; such widespread unemployment overrode previous fears that unemployment relief rewarded the lazy and shiftless. Unemployment insurance was first enacted in 1935, although a functioning program did not emerge until 1940.

In the years following the Marsh Report, pressures to reform pensions continued. There was much discussion about the form of social security; whether people should contribute to the program, whether it should be insurance against the wider risks of disability before and after retirement, and whether there should be a means test.

At the end of the Second World War a period of growth in income security and social welfare programs began. A major departure was the adoption of a universal approach, starting with Family Allowances in 1945 and soon afterward applied to old age pensions.(51) While social benefits traditionally had been based on individual need, the new approach was to treat all in a defined category equally regardless of individual means or income.

In 1952 the 1927 Old Age Pensions Act was replaced by legislation providing for a universal payment. At the same time an income-tested pension was made available to people in the 65-70 age group.

The Old Age Security Act (1951) came into effect in January 1952. It provided a universal pension of $40 monthly at age 70 to all who had resided in Canada for 20 years prior to commencement of benefits. The federal government assumed full responsibility for the program, which was financed by a special Old Age Security tax.

The Old Age Assistance Act (1951) also came into effect in 1952, and provided an income-tested pension of $40 per month with the same residence requirement as the universal program but applicable to those between ages 65 and 70. This program was a shared-cost undertaking of the provinces and Canada. The limit on allowable income was $720 a year for single and widowed pensioners and $1,200 for those who were married. In the public debate whether the benefits should be universal, all were agreed that the means test should be abolished; that is, any test of need should be based on income alone and not a person's assets or potential family support.

The 1951 legislation constituted a watershed in government programs for the elderly. It was a major step toward institutionalizing the income support of the elderly on a basis entirely distinct from the family unit. The primary obligation for support of the elderly had shifted from the individual family to the community at large. The prosperity of the 1950s contributed to the decline of the extended family and heightened the need for institutionalized retirement arrangements for the elderly. As government revenues expanded it became easier to meet this need through organized programs.

These programs also affirmed the principle of income entitlement for all Canadians aged 70. The notion of entitlement sank deep roots. Annual improvements in living standards and gains in national wealth were perceived as entitling citizens to a growing share of national income.

In another important respect the OAS legislation of 1951 was a precursor of later pension legislation: by prescribing a special Old Age Security tax (on manufacturers' excise, corporation tax, and personal income taxes), the government made the OAS something of a contributory pension program. In particular, the special calculation each individual taxpayer made in filing his return helped reinforce the view that this was no "handout" program, but an arrangement by the government to pay a pension financed by the contributions of those who would ultimately benefit. However oblique the concept may have been, it undoubtedly convinced many Canadians that they had "paid for" their old age pensions by years of contributing to the special "fund." The device of earmarked taxes was discontinued, however, in 1972.

The Old Age Security program has remained a universal program. Beginning in 1965 the eligible age was reduced one year at a time until it reached age 65 in 1970. Pension amounts have continued to increase, and full escalation for increases in the cost of living on an annual basis began in 1972. The basic benefit was increased to $100 in 1973; in the same year escalation was changed to a quarterly basis. With these changes came the disappearance of Old Age Assistance as such, and introduction of certain income supplements, discussed later in this chapter, for needy persons aged 65 and over, and for the spouses aged 60 to 65 of Old Age Security pensioners.

Canada Pension Plan

The Canada Pension Plan, which came into effect on January 1, 1966, was the first government contributory earnings-related pension plan. The idea of a contributory plan had been considered in the past, having been recommended by the Quebec Social Insurance Commission in 1933, and by the Marsh Report in 1943. The Marsh Report found the trend to be in the direction of compulsory contributory insurance against retirement and old age. In 1950 the Canadian Labour Congress proposed a two-level program consisting of a universal pension and an earnings-related con-

tributory pension. However, in 1952, universal pensions rather than contributory pensions were enacted. Thereafter, there was a growing movement in favour of superimposing a contributory plan.

The form of the contributory program was the subject of a sometimes bitter national debate. The Canada Pension Plan is discussed in detail elsewhere, but it is worth recalling some features of the controversy over this legislation.

The Canada Pension Plan (CPP) first emerged as an election issue in 1957 when the Conservative leader John Diefenbaker looked to the old age, survivors', and disability insurance plan of the United States.(52) The CCF in 1957 developed a detailed proposal for a combined universal and earnings-related pension program, adopted and modified by the New Democratic Party in 1961. In that year the Liberal Party adopted the concept; and the Pearson government on June 21, 1963 introduced a resolution which embodied the early formulation of the CPP.

Soon afterwards the life insurance industry launched a national campaign against the plan, having been assured by the Minister of Health and Welfare, Judy LaMarsh, that the government indeed meant to proceed with the plan. The life insurers denounced the plan as actuarially unsound, inequitable, excessive government intervention and a threat to private pension plans. Other business groups joined in the attack. Labour groups launched their own campaign in support of the plan.

There was much discussion of the fundamental design of the plan. The federal government originally wanted a pure pay-as-you-go plan - that is, a plan whose benefits would be paid out of general tax revenues as required. Quebec wanted to enact its own plan with a fund which could be used for provincial development purposes. Ontario wanted a plan organized as far as possible on insurance principles. The federal government opposed a huge build-up of money under government control. The Quebec design of a partly-funded plan won out although all provinces appreciated the prospect of obtaining low-interest loans from the CPP fund. The final legislation ingeniously tied the interest rate on provincial borrowings each month to the going rate for Government of Canada bonds having a term of twenty years or more. Apart from the obvious subsidy to provinces with lower credit ratings, this formula resulted in a subsidy even to taxpayers in Ontario and Alberta. Since 1958 Ottawa had left the long-term end of the bond market largely to the provinces, doing its borrowing in savings bonds and medium-term issues. By 1972 the only Canada bonds outstanding that could be used in the calculation were such low-coupon issues as the 3 per cent Perpetual bonds issued during the Depression. These bonds hardly represented valid indices of market interest rates. Thus the interest charged to the provinces on their borrowing did not represent a true Canada bond rate, let alone relate to the yields on open-market provincial debt.

The design of the Canada Pension Plan was a matter of intense negotiation. Areas of argument included a Quebec proposal to provide for survivor, death, and disability benefits. Ottawa required an amendment to the B.N.A. Act to legislate such additional benefits. Quebec's proposal required the self-employed to contribute to the plan but Ottawa's did not. The federal transition period before full benefits were payable was ten years while Quebec's was twenty years.

The result was a Canada Pension Plan for nine provinces and the territories and a Quebec Pension Plan for the province of Quebec, both of which came into effect on January 1, 1966. It was agreed that the plans would be similar in coverage, eligibility, contributions, benefits, and funding. Employees and employers contributed a per cent of earnings to a fixed ceiling for a benefit based on contributory earnings. The maximum benefit was designed to be 25 per cent of the average industrial wage. Benefits and contributions are related to increases in the Average Industrial Wage. Benefits were escalated annually according to increases in the cost of living, with an upper limit of 2 per cent per year. This "cap" was removed in 1972 and CPP was indexed annually to increases in the Consumer Price Index in 1972 and quarterly since 1974.

Initial benefits from the CPP were nominal, but they rose rapidly from 1967 to the end of the transition period in 1976 . The maximum monthly retirement pension benefit rose from $10.42 in 1967 to $218.06 in 1979. The required contribution from employer and employee increased from a maximum of $79.20 each in 1966 to $190.80 in 1979. Various changes have been made to both the Canada and Quebec plans since 1966. Retirement and earnings tests were removed so that contributors aged 65 to 70 could receive their retirement pensions whether or not they continued to work and receive wages. Equal treatment was provided for male and female contributors and their surviving beneficiaries in 1975. A detailed history of the CPP may be found in the Canada Pension Plan volume.

Other Government Program Developments

Starting in 1967 the federal government supplemented Old Age Security (OAS), the universal pension, for the needy elderly with the Guaranteed Income Supplement (GIS). The GIS replaced the 1951 means-tested Old Age Assistance program which was provincially administered. The Guaranteed Income Supplement maximum of $30 a month in 1967 was paid to those whose total income consisted of OAS ($75) and GIS. Outside income was taken into account and the supplement was reduced by $1 a month for each $2 of outside income. The GIS was originally designed to pay 40 per cent of OAS and was enacted at the same time as the Canada Pension Plan. It was considered to be a transitional program which could be phased out as the CPP matured. This has not occurred for various reasons and the GIS has become a major program. The Guaranteed Income Supplement was indexed to a maximum of 2 per cent in 1967. Like OAS, in

1972, GIS was indexed annually to increases in the cost of living, and was indexed quarterly in 1973. The program is discussed in detail in Chapter 4 of this volume.

In 1975 the Old Age Security Act was amended to provide assistance to needy spouses of pensioners where the spouses were between the ages of 60 and 65. The Spouse's Allowance program, in effect, provided for receipt of OAS and GIS at age 60. This allowance presumably took into account that wives were often a few years younger than the retired pensioner husband. The allowance was cut off after the death of the pensioner if the spouse was not yet 65 at the time; but a 1978 amendment provided for continuation of the allowance for six months following the death of the pensioner if the recipient was otherwise eligible.

With the advent of GIS, a totally federal program, provincial income-tested pensions were added, "topping-up" GIS for OAS recipients and providing benefits to those who did not qualify for the federal programs, usually because of inability to comply with the residency rules. Six provinces have guaranteed income programs which are described in the background papers.

Ontario introduced its Guaranteed Annual Income System (GAINS) in 1974. The provincial program guarantees a level of income to senior citizens by making up the difference between other income and a specified guaranteed level. The guaranteed level in 1974 was $2,600 a year for a single person and $5,200 a year for a married couple. At present the level is $4,189 and $8,139.84 respectively (April 1979).

Tables 10 and 11 show the number of recipients and payments under Old Age Security, GIS and GAINS.

GAINS has not shown the same growth as GIS because of the relatively better income situation of seniors Ontario compared with the rest of Canada. GAINS clearly began to decline with the end of the 10-year transition period for CPP. The total GAINS payments were $95,990,000 in 1975; $119,340,000 in 1976; $110,689,000 in 1977; and $101,803,000 in 1978.

In addition to these income security programs there are general welfare programs, available to the elderly as well as others. The Canada Assistance Act was passed in 1966, combining existing federal-provincial programs for the blind, disabled, and unemployed as well as the aged. Under the Canada Assistance Plan federal contributions amount to 50 per cent of provincial and municipal expenditures for assistance payments including welfare and certain health services.(53) The elderly in Ontario also receive such benefits as free OHIP premiums, free drugs, certain income tax concessions and municipal tax credits, and a variety of special services extended by local authorities and private businesses.

The growth of government programs and services is reflected in the growth of government spending and a growing bureaucracy. Table 12 shows federal government budgetary expenditures for selected years during the period.

Table 10
Number of Recipients and Payments of Old Age Security, Guaranteed Income Supplements, and Spouse's Allowance, 1953-1979

	Number of recipients			Payments		
	OAS	GIS	SA	OAS	GIS	SA
				(Millions of dollars)		
1953	686,127			323.1		
1960	876,410			574.9		
1961	904,906			592.4		
1962	927,590			625.1		
1963	950,766			734.4		
1964	971,801			808.4		
1965	993,582			885.3		
1966	1,105,776			927.3		
1967	1,229,561	505,240(est.)		1,033.4	39.6(a)	
1968	1,366,210	714,648		1,153.3	234.8	
1969	1,504,862	775,034		1,296.8	244.5	
1970	1,670,639	812,835		1,467.0	263.5	
1971	1,720,128	860,392		1,634.2	273.0	
1972	1,762,550	974,147		1,679.2	526.1	
1973	1,808,233	1,045,467		1,786.4	737.9	
1974	1,858,481	1,076,425		2,274.4	760.1	
1975	1,915,679	1,082,406		2,606.8	837.7	
1976	1,957,288	1,087,113	54,194	2,975.8	923.3	34.9
1977	2,014,301	1,114,678	71,781	3,318.9	1,017.1	100.6
1978	2,075,247	1,136,445	73,835	3,668.6	1,077.6	115.0
1979(b)				4,147.4	1,189.2	127.0

a Incomplete
b Estimates

Source Canadian Tax Foundation, The National Finances, 1978-79, p. 121.

It took twenty-two postwar years for federal expenditures to exceed $12 billion, and only six more years for them to exceed $28 billion. Ontario budgetary expenditures grew from $3.6 billion in 1968-69 to $12.9 billion in 1977-78.(54)

The expansion of federal activity can be seen in the growth of the public sector employment. In 1946 there were 121,000 federal employees. At June 30, 1978 there were 596,616 on the payrolls of the federal government and government enterprises, including temporary employees of certain federal projects.(55)

Table 11
GAINS Monthly Recipients and Payments, 1974-1979

	Recipients			Payments		
	GAINS only	OAS-GIS(a) GAINS	Total	GAINS only	OAS-GIS(a) GAINS	Total
		(Number)			(Thousands of dollars)	
July 1974	3,200	254,800	258,000	614	5,336	5,950
Jan. 1975	5,484	260,100	265,584	1,376	5,913	7,289
Jan. 1976	6,193	276,144	282,337	1,626	8,712	10,338
Jan. 1977	5,521	265,379	270,900	1,438	8,449	9,887
Jan. 1978	3,959	253,928	257,887	1,053(b)	8,039(b)	9,055
Jan. 1979	2,331	243,552	245,883	699(b)	7,623(b)	8,203
Mar. 1979	2,163	242,352	244,515	646(b)	7,499(b)	8,145(b)

a These are GAINS recipients who are also OAS-GIS recipients.
b Unadjusted for back payments and special payments.

Source Ontario Ministry of Revenue. Guaranteed Annual Income and Tax Credit Branch.

Table 12
Federal Government Expenditures, 1946-1977

	(Millions of dollars)(a)
1946	2,877
1958	6,176
1968	12,229
1971	17,386
1974	28,869
1977	43,778

a Excluding inter-government transfers

Source Canadian Tax Foundation, The National Finances, p. 24.

Ontario in 1901 had 600 civil servants. By 1945 there were 9,000;(56) and by 1960 there were about 32,000. In 1976 the Ontario civil service employment was about 68,000. All public employment in Ontario increased from about 1 million in 1947 to 1.9 million in 1961 and 3.2 million in 1975.(57)

Of significance in the expansion of programs for the elderly was the increasing numbers of older people and their increased longevity. Life expectancy continues to improve. The first reliable calculation in Canada began in 1931. Life expectancy at birth increased from 63 years for men and 66.3 years for women in 1941 to 69.3 years for men and 76.4 years for women in 1971. Life expectancy at older ages has steadily increased. Today it is 70.19 for men and 77.48 for women.(58) The average age of death in Canada in 1931 was 43.1 for men and 44.8 for women.(59) In 1975, it was 63.8 for men and 69.4 for women.

From 1871 to the present, almost every decennial census has shown the 65 and over age group as an increasing percentage of the total population.(60) Table 13 shows the increase in the numbers of the elderly and their relationship to the population for selected years.

Table 13
Canada Population Distribution by Age Groups, 1921-1978

	0-14	Per cent of total	15-64	Per cent of total	65+	Per cent of total
1921	3,023.5	34.40	5,344.3	60.82	420	4.78
1931	3,281.8	31.63	6,520.8	62.84	574.1	5.53
1945	3,335.1	27.63	7,883.0	65.30	853.9	7.07
1960	6,030.0	33.74	10,482.2	58.66	1,357.8	7.60
1975	5,923.6	26.29	14,686.7	65.18	1,923.1	8.53
1976	5,896.2	25.65	-	65.64	2,002.3	8.71
1977	5,799.0	24.94	-	66.16	2,069.8	8.90
1978(a)	5,685.8	24.22	-	66.68	2,135.2	9.10

a Preliminary

Source Ontario Ministry of Treasury and Economics.

Not only has the postwar period seen the development of a wide range of income and social security programs for all Canadians, but the elderly may have benefited to a greater extent than other groups. Those over 65 are guaranteed an annual income which rises with the cost of living and which is greater than that provided by social assistance to those under 65. The income security of the elderly has occurred because of government programs rather than private arrangements.

This emphasis on government programs has been supported by the labour movement. Generally speaking, organized labour has been a continuing lobby for improved working conditions and benefits, but government old age pensions have been sought throughout the century. As early as 1905, the Trades and Labour Congress of Canada, formed in 1883, made a recommendation that "the time is opportune to introduce legislation making provision for the maintenance of the deserving poor, old or disabled citizens, who are unable to maintain themselves."(61)

In 1924 the TLC appeared before a parliamentary committee to press for income for all who had reached a certain age on an income-tested basis.(62) After passage of the Old Age Pensions Act in 1927, the Congress urged its provincial adoption. Labour pressure for improved government retirement programs has continued to the present time.

Thus, today, social security for the elderly provided by government programs is a threefold package indexed quarterly or annually to the Consumer Price Index: a universal pension, a pension related to earnings for workers, and a guaranteed income for the aged poor.

OTHER RETIREMENT ARRANGEMENTS

Government Annuities

The federal Old Age Annuities program was a retirement income arrangement enacted by the Government Annuities Act of 1908. It was not a government program but a vehicle for persons to save for retirement other than through annuities sold by private insurance companies. The preamble to the act reads:

> "Whereas it is in the public interest that habits of thrift be promoted and that the people of Canada be encouraged and aided thereto so that provision may be made for old age..."

At the end of 1910 fewer than 2,000 contracts for annuities were in force in Canada.(63) Analyses of annuity contracts in 1915 and 1920 revealed that purchasers were mainly people in lower-paid professions (notably teachers and clergy), clerks, skilled tradesmen, farmers and small businessmen.(64) Less than 12,000 contracts for government annuities were in force in 1931. Group contracts rather than individual contracts became more common in the 1940s.

By 1965-66 there were only 174,915 individual government annuity contracts in force in Canada and 125,438 insurance company contracts. (65) Canadian government annuities covered .02 per cent of members in pension plans in 1976. Since 1948 rates have been uncompetitive since they have no cash surrender values and interest rates were low.(66) The interest rate was increased to 7 per cent in 1975. Since 1975, no new government annuities may be sold but payments will continue under existing contracts.(67)

Registered Retirement Savings Plans

Favourable income tax treatment of private pension plans eventually gave rise to resentment among professionals and others without access to employee retirement programs. The self-employed saw themselves paying high rates of income tax throughout a working career, while saving for retirement entirely out of after-tax dollars. Pension plan members by comparison were ahead in several ways:

- the employee received a tax deduction on his pension contributions;

- the employee gained the benefit of the employer's tax-deductible contributions; and

- income earned on the invested contributions accumulated free of tax.

- while benefits were taxable when received, the individual could expect to be in a lower tax bracket than while employed.

This inequity led the federal government to amend the Income Tax Act in 1957 to provide for Registered Retirement Savings Plans (RRSPs).(68) Contributions to RRSPs are tax-deductible and may be made by the self-employed as well as wage-earners whether or not they contribute to a pension plan. Nearly 40 per cent of contributors to RRSPs contribute to pension plans as well. In addition, since 1974, contributions may be applied for a plan for a spouse even if the spouse has no earned income. The original amount that could be contributed was, in the case of pension plan members, the lesser of $1,500 or 10 per cent of the taxpayer's earned income, less any contribution made by the taxpayer to a pension plan. In the case of other taxpayers, the contribution limit was the lesser of $2,500 or 10 per cent of earned income. Amendments in 1965 increased the 10 per cent limit to 20 per cent.(69) With tax reform, effective for the 1972 taxation year, the limits were increased to $2,500 in the case of pension plan members and $4,000 in the case of other taxpayers.(70)

The present limits enacted in 1976 are $3,500 in the case of pension plan members and $5,500 in the case of other taxpayers(71), both subject to a maximum 20 per cent of earned income. In addition to these limits, taxpayers may contribute other payments received such as Old Age pensions and CPP pensions.

There has been no substantial change in the classes of institution authorized to provide such plans to the public, i.e., insurance companies, trust companies, banks, and investment companies approved by regulation.

Registered Retirement Savings Plans were slow to take root but recently began an era of remarkable growth. Although designed as a retirement savings instrument, the RRSP enjoys much popularity as a tax shelter. Today, contributions to RRSPs surpass employee and employer contributions to registered pension plans in the private sector. This level of participation increased gradually from 2 per cent of those filing tax returns in 1966 to 10.5 per cent in 1976.(72) There were fewer than 100,000 contributors in 1966, nearly 250,000 in 1970 and 1,225,000 in 1976. Nearly half of these were in Ontario. In dollar terms the growth is even more impressive. Contributions nationally rose from $225.2 million in 1970 to $2.1 billion in 1976; the latter includes $846.2 million in Ontario.

RRSPs have become a major financial instrument with a significant role in retirement income arrangements. In addition, group RRSPs are becoming popular. RRSPs are discussed in detail in later chapters.

Other Formal Arrangements

Various other formal arrangements such as profit sharing and savings plans encourage saving and provide retirement income. Deferred profit sharing plans were made eligible in 1961 for registration in order that contributions might be tax deductible. Contributions must be computed by reference to the employer's profits from business. Deferred profit sharing plans number almost 21,000; but since they are chiefly confined to small employers they cover less than 1 per cent of pension plan members.

CONCLUSION

Historically, the most significant developments in providing retirement income for Canadians have been the enactment of major government programs in the 1950s and 1960s. Both workers and non-workers now have a guaranteed minimum income from age 65. In addition, the Canada Pension Plan provides an earnings-related benefit which, when combined with the universal Old Age Security pension, forms the basis of Canada's social security system for the elderly. On the other hand, employment pensions (except in the public sector) have shown little extension of coverage except to keep pace with the growth of the labour force over the past twenty years and have improved only slightly (such as higher benefit levels) in the absence of government compulsion. They remain the privilege of some employees and insofar as delivering benefits is concerned, are primarily the rewards of long service. Employment pensions in the public sector were not only the first pension plans but continue to provide overall the best benefits, the best coverage, and the best degree of portability.

NOTES

(1) Brief 206.

(2) Ontario Committee on Portable Pensions, Second Report, 1961, Ontario, p. 2.

(3) Joseph Schull, Ontario Since 1867, McClelland and Stewart, 1978, p. 239, quoting J.J. Morrison.

(4) William C. Greenough and Francis P. King, Pension Plans and Public Policy, Columbia University Press, New York, 1976, p. 27.

(5) Ibid., p. 28.

(6) Murray Webb Latimer, Industrial Pension Systems in the United States and Canada, 2 vols., N.Y. Industrial Relations Counselors.

(7) Latimer, Company Plans in the United States and Canada, Preliminary report, May 1928, Vol. 1, p. 3.

(8) Second Report, p. 18.

(9) National Employment Commission, Report on Phases of Employment Conditions in Canadian Industry, Ottawa 1937.

(10) Industrial Relations Section of Queen's University, Industrial Retirement Plans in Canada, Kingston, 1938.

(11) Extracts from study published as Appendix V to Marsh Report, p. 301-13.

(12) Second Report, p. 89.

(13) Kenneth Bryden, Old Age Pensions and Policy-making in Canada, McGill-Queen's University Press, 1974, p. 38.

(14) Schull, Ontario Since 1867, p. 218.

(15) Second Report, p. 18ff.

(16) Ontario Statistics, p. 373.

(17) Schull, Ontario Since 1867, pp. 53, 187.

(18) Economic Council of Canada, People and Jobs, 1976, pp. 5, 7, 63.

(19) Ibid., p. 7.

(20) Margaret E. MacLellan, History of Women's Rights in Canada, pp. 25-6.

(21) Data on married women participation rates from "Basic Facts," No. 2, The Women's Bureau, Ontario Ministry of Labour, 1979.

(22) Ibid.

(23) Ibid.

(24) The Committee found a total labour force (April 20, 1957) of 5,837,000. After deducting persons without jobs and seeking work (308,000) and self-employed and family workers (1,165,000) there were 4,364,000 employees with jobs.

(25) Statistics Canada, *Pension Plans in Canada*, 1974, Cat. 74-401, p. 28 and *Pension Plans in Canada*, 1978.

(26) Ibid., 1974, p. 19.

(27) Ibid., 1978, p. 48.

(28) Ibid., 1974, p. 27.

(29) Ibid., 1978, p. 23.

(30) Ibid., 1978.

(31) Ibid., 1974, p. 39.

(32) Description found in *Second Report*, p. 90ff.

(33) Ibid., p. 93.

(34) S.O. 1962-63, c. 103.

(35) S.O. 1964, c. 88 assented to May 8, 1964 (session prorogued).

(36) Laurence Coward in telephone conversation to M. Corbett on June 6, 1979.

(37) Statistics Canada, *Pension Plans in Canada*, 1978, Cat. 74-401, p. 57.

(38) Regulation 654/75 under The Employment Standards Act, 1974 s. 4(a).

(39) Statistics Canada, *Pension Plans 1976*, p. 65.

(40) *Report of the Task Force on Employee Benefits under Part X of the Employment Standards Act*, Ontario, April 1975, p. 94.

(41) Regulation 654/75, s. 4(b).

(42) Statistics Canada, *Pension Plans 1978*, p. 77.

(43) O. Reg. 654 as amended by O. Reg. 308/78, made under the Pension Benefits Act, s. 16.

(44) Bryden, p. 37.

(45) Newfoundland had enacted a means-tested plan for the elderly in 1911.

(46) Leonard Marsh, *Report on Social Security for Canada*, 1943, University of Toronto Press 1975, pp. 153-4.

(47) The presumed living wage recalls the railway worker's pay in Gordon Lightfoot's song, "The Canadian Railroad Trilogy," "A dollar a day and a place for my head."

(48) Marsh Report, p. 160.

(49) Ibid., p. 163.

(50) Ibid., p. 171.

(51) Minister of National Health and Welfare, *Social Security in Canada*, Ottawa, 1974, Cat. H13-1/20, p. 10.

(52) Bryden, p. 138.

(53) Social Security in Canada, p. 12.

(54) Ontario Statistics 1977, Vol. 2, p. 421.

(55) Ibid., p. 109. In March 1925, when figures were first published, federal government employees numbered 39,000.

(56) J.E. Hodgetts and O.P. Dwivedi, Provincial Governments as Employers, McGill, Queen's University Press, Montreal and London, 1974.

(57) David K. Foot, ed., Public Employment and Compensation in Canada: Myths and Realities, Institute for Research on Public Policy, Butterworth & Co. (Canada) Ltd., Scarborough, 1978, p. 51.

(58) Globe and Mail, July 19, reporting Statistics Canada figures based on 1976 Census and deaths occurring from 1975 to 1977.

(59) In Ontario, 50.1 years for men and 52.6 for women.

(60) Bryden, p. 31.

(61) Bryden, p. 48.

(62) H.A. Logan, Trade Unions in Canada, Toronto 1948, The MacMillan Company of Canada Limited, p. 505.

(63) Ibid., p. 37.

(64) Ibid., p. 52.

(65) Ibid., p. 38.

(66) Laurence E. Coward, Mercer Handbook of Canadian Pension and Welfare Plans, CCH Canadian Limited, Don Mills, 1977, p. 77.

(67) Ibid.

(68) S.C. 2967, c. 29, s. 17 applicable to 1957 and subsequent taxation years.

(69) S.C. 1965, c. 45, s. 20(1)(2).

(70) S.C. 1970-1971, c. 63.

(71) S.C. 1976-1977, c. 4, s. 56(4).

(72) Harry Weitz, "Contributors and Contributions to Registered Retirement Savings Plans in Ontario," study prepared for Royal Commission of the Status of Pensions in Ontario reproduced in full in the background studies.

LIST OF TABLES

Chapter 4

The Population Aged 65 and Over in Ontario

This chapter describes the population in Ontario aged 65 and over. Demographic, social, and economic characteristics will be examined. The description is a still frame from a moving picture because this segment of our present population is changing as are its younger cohorts with social and political developments. In addition, the group 65 and over is not homogeneous. Those over 75 were raising families during the Depression, served in two world wars, and had no access to universal health care until late in life. The standard of education available to them was lower, and since their attitudes reflect the traditional division of responsibilities between the sexes, female labour force participation was low. By contrast, those now in the 65-75 range have retired with some Canada Pension Plan and private pension benefits, have witnessed an increased work-force participation of women, and have contributed to the postwar baby boom. They were young adults during the Depression, lost their fathers in the First World War and themselves experienced the Second and Korean Wars. Since middle life they have seen the development of tax-supported hospital and medical care and publicly-sponsored pension schemes. They were reaching 65 at a time when the youth revolution was altering our social structures and attitudes, and women were entering the labour force in unprecedented numbers.

However, over the last decade Canadian society has gradually adopted age 65 as a demarcation line between old and young, active and passive, productive and dependent. Age 65 has evolved as the age at which government pension benefits commence regardless of work-force status, and as the common age of normal retirement under employment pension plans. During the 1960s the division was found at age 70 when Old Age Security and Canada Pension Plan payments became payable regardless of earnings. To reflect actual retirement practice, however, the age was lowered for OAS payments one year at a time beginning in 1966 until it reached 65, and in 1974 CPP benefits became available at age 65 without an earnings test.

As we have seen in Chapter 2 this age does not mark an absolute line in terms of retirement since work-force participation beyond age 65 continues for some 15.2 per cent of men and 4.5 per cent of women.(1) In this report, the word retired is generally used to mean those age 65 and over whether in fact they are retired or not. A number of others will have left the work-force earlier than 65 or will never have been part of the paid work-force, and as a consequence their status changes less perceptibly upon reaching age 65. However, in terms of public policy and public perception 65 is a convenient dividing line. As well as marking the beginning of public pension benefits, it is the age at which income tax treatment changes, health premiums are waived and drugs or other benefits are provided at no cost, and private business extends a number of discounts and advantages.

Statistical data frequently isolate those 65 and over - for example, census, income distribution, labour force and taxation data - so that this group is an identifiable segment of the population for purposes of analysis. Only in specific types of surveys, however, can active or retired status be determined with any precision. Two recent surveys of the retired in Canada break out results according to retired status regardless of age. The first, conducted by the Department of National Health and Welfare through Statistics Canada ("the Health and Welfare Survey")(2) compared present and future retired persons in Canada in their attitudes, expectations and activities; the second, initiated by this Commission and carried out by Southam Marketing Research Services ("The Consumer Survey")(3) centred on Ontario and examined people's knowledge of and attitudes toward pensions. Much of the statistical information we must rely on uses age alone as a criterion for division and therefore we shall have to focus on those 65 and over in many cases. Beyond this, retirement is in large part a subjective assessment; someone receiving a pension but working part-time might well feel "retired" but would be considered active in labour force statistics. As a consequence the Commission has chosen to study those 65 and over as a group, though not without the awareness of the fringe group between 60 and 65 who, because they have left the work-force, or are married to persons already retired, or for health reasons are less active than before, are closer in lifestyle and outlook to the 65 and over group than to younger cohorts.

In addition for many women now in the senior group, retirement is not a function of their lives since they were never in the paid work-force; consequently their active or retired status will be defined in terms of their husbands' status, though there may have been an appreciable change in their lifestyle because their husbands are now at home in the daytime and the couples must deal with the reality of togetherness.

The following sections of this chapter will examine relevant features of those aged 65 and over - demographic, social, and financial. Because of the nature of the Commission's mandate we have concentrated on Ontario, but in cases where sufficient detail is not available for

the provinces or where Ontario differs markedly, figures for Canada will be used.

PROFILE OF THE RETIRED

Demographic Chacteristics

The 65 and over group in Ontario comprises some 9 per cent of the population. Of 8,264,465 people in Ontario in 1976, 738,920 are aged 65 and over.(4)

Table 1
Estimated Population 65 and Over, Ontario, 1976

	Number
Total population	8,264,465
65 - 69	260,925
70 - 74	197,270
75 - 79	137,025
80 - 84	82,950
85 - 89	41,495
90 and over	19,255
Total 65 and over	738,920
65 and over as a percentage of total	8.9%

Source Statistics Canada, Census of Canada, 1976, Cat. 92-823, Vol. 2

While the Ontario figure is higher than the comparable figure for Canada (8.7 per cent) Ontario is middle-of-the-road when compared to the other provinces. Those relying heavily on agriculture (Prince Edward Island, Manitoba, Saskatchewan) have seen their younger residents leave for jobs in industrialized regions, while the older population remained; British Columbia offers a climate and social structure favourable for retirement and as a consequence has experienced an influx of retirees. Ontario, with its less extreme in and out-migration has retained a proportionate number of the senior Canadian population. It has 35.9 per cent of the total population of Canada and 36.9 per cent of the over-65 population.(5)

Women outnumber men in every age group over 65 and the proportion of women to men steadily increases with age.

Table 2
Estimated Population 65 and Over by Sex, Ontario, 1976

	Female	Male
	(Number)	
Total population	4,167,600	4,096,865
65 - 69	140,390	120,535
70 - 74	110,885	86,385
75 - 79	82,660	54,365
80 - 84	53,280	29,670
85 - 89	28,000	13,495
90 and over	13,390	5,865
Total 65 and over	428,605	310,315
65 and over as a percentage of total female/male population	10.2%	7.6%

Source Statistics Canada, Census of Canada, 1976, Cat. 92-823, Vol. 2.

As the older group increases, its composition will change. The 1976 Census showed that women made up 56.3 per cent of the population 65 and over in Canada and 58.1 per cent in Ontario. Broken out by age within that group, we find the following distribution:

Table 3
Women as Percentage of Total Age Group, Canada and Ontario, 1976

Age group	Canada	Ontario
	(Per cent)	
65 - 74	53.8	54.6
75 - 84	59.6	61.8
85 and over	63.6	68.1
Total 65 and over	56.3	58.1

Source Statistics Canada, Census of Canada, 1976, Cat. 92-831, Vol. 1.

The majority of men age 65 and over are married and the majority of women are widowed. Just over half of elderly women are widowed compared to about 16 per cent of elderly men.

One demonstrable difference in the present 65 and over group is marital status. Table 4 shows that 74.9 per cent of the men age 65 and over in Ontario are married, and 51.5 per cent of the women are widowed. Mortality experience shows a consistent correlation between marital status and survivorship, with married men outliving other men.(6) Further,

the group now 65 and over showed lower percentages for "married" at younger ages than does the present population.

Table 4
Marital Status of Persons Age 65 and Over in Ontario, 1976

	Female		Male	
	(Number)	(Per cent)	(Number)	(Per cent)
Single(a)	40,370	9.4	25,890	8.3
Married	162,845	38.0	232,450	74.9
Widowed	220,635	51.5	48,435	15.6
Divorced	4,770	1.1	3,540	1.1
Total	428,620	100.0	310,315	100.0

a Never married

Source Statistics Canada, Census of Canada, 1976, Cat. 92-825, Vol. 2, Table 22.

Table 5
Married Males as a Percentage of the Total Male Population in Each Age Group, Ontario, 1976

	Per cent
25 - 34	77.9
35 - 44	90.0
45 - 54	89.8
55 - 64	87.9
65 and over	74.9

Source Statistics Canada, Census of Canada, 1976, Cat. 92-824, Vol. 2.

Table 6
Percentage Married in Male Population, Selected Age Groups, Ontario, 1951-1976

Census year	Age group	Married
		(Per cent)
1951(a)	45-54	85.2
1961	50-54	87.9
1971	60-64	85.8
1976	65-69	83.6

a Only 10-year age spans are available in the 1951 Census.

Source Statistics Canada, Ninth Census of Canada, Table 2; Census of Canada, 1961, Cat. 92-552, Vol. 1, Pt. 3; Census of Canada, 1971, Cat. 92-730, Vol. 1, Pt. 4; Census of Canada, 1976, Cat. 92-825, Vol. 2.

Life Expectancy

Life expectancy continues to increase and the gap in life expectancy between males and females continues to widen. In 1961, women's life expectancy at age 65 was 15.9 years (13.1 for men) and in 1976 life expectancy was 17.9 years for women at age 65 and 13.7 for men.

Table 7
Life Expectancy in Ontario by Sex, Selected Years, 1961-76

	1961		1971		1976	
	Female	Male	Female	Male	Female	Male
			(Years)			
At birth	74.4	68.3	76.8	69.6	77.7	70.6
At age 60	19.7	16.2	21.5	16.6	21.9	17.0
At age 65	15.9	13.1	17.6	13.4	17.9	13.7

Source Statistics Canada, Vital Statistics, 1975, Volume III, Deaths, Cat. 84-206, Table 2, p. 2, and figures supplied by Statistics Canada, Ottawa.

Life expectancy tables point to an increasing gap in longevity between men and women in coming years. Between 1941 and 1971 the gap at age 60 increased from 1.8 years to 4.9 years.(7) A major contributing factor toward women's absolute improvement in longevity is the reduction in maternal mortality. From a rate of 4.9 per 10,000 live births in 1956, before the advent of universal hospitalization and medical care plans, it dropped to 2.7 in 1966 and 0.3 in 1976.(8)

A major contributing factor in women's comparative improvement in longevity lies in the fact that while infant mortality has dropped dramatically in the period since World War II, mortality for males past childhood has improved very little. Infant mortality figures for both sexes show a rate of 37.5 per 1,000 live births in 1946 dropping to 25.2 in 1956, 20.2 in 1966 and 12.3 in 1976. However males at age 20 in 1941 could expect to live a further 49.6 years and by 1971 this had increased only to 51.6 years. Comparable figures for females are 52.4 in 1941 and 58.4 in 1971.(9)

Since reduced maternal mortality can be considered a permanent feature of female longevity, all statistics point to an increasing number of women in the senior population. While there are some factors at work which may enhance the life expectancy of men, the preponderance of females is a factor to be kept in mind in any social structures designed for the future.

Mortality and morbidity experience also reflect choices of lifestyle and occupation. At present males are suffering disproportionately as a result of their choices. The following table sets out numbers of

deaths from specific causes related to behaviour, and underlines the gap between male and female experience.

Table 8
Deaths from Specific Causes by Sex, Canada, 1971 and 1976

	1971		1976	
	Male	Female	Male	Female
	(Number)			
Specific accidents				
Auto accidents	4,100	1,600	3,770	1,402
Other transport accidents	500	70	469	51
Industrial accidents	700	55	618	54
Accidental drownings	600	150	602	129
Lung cancer	4,600	800	5,817(a)	1,321(a)
Bronchitis, emphysema, and asthma	2,800	700	2,268	690
Suicide	1,900	700	2,108	827
Cirrhosis of the liver	1,300	650	1,941	850

a Includes trachea and bronchus.

Source Health and Welfare Canada, A New Perspective on the Health of Canadians, Ottawa, p. 21, and Statistics Canada, Vital Statistics, 1976, Volume III, Deaths, Cat. 84-206, Table 15, p. 44ff.

Allowing for population growth in the intervening five years, the decreases, particularly in automobile accidents and respiratory diseases, are encouraging; though the continued gap in male and female experience is not. The past decade has witnessed some major changes in behaviour and attitudes to lifestyle. Environmental factors which can be controlled have been channelled toward healthier existence - reduced industrial pollution of air and water, emission control standards for motor vehicles, the mandatory use of seatbelts in Ontario and a number of other provinces and lower speed limits for example. Individual behaviour changes which have also been claimed to contribute to improved health status, particularly of men, are reduced intake of high-cholesterol foods, greater physical activity such as jogging and cross-country skiing, and the decreasing incidence of smoking to the point where non-smokers now constitute 58.1 per cent of the over-15 population in Canada.(10)

Reductions in death or impaired health resulting from changes in behaviour mean that more people will survive to age 65, and will be in better shape when they get there. We can see from Table 8 that improvements will have a disproportionate effect on male mortality, redressing

somewhat the present differing experience between the sexes. Whether the changes will be significant when compared to future improvements in female longevity, however, is debatable.

At present the group 65 and over differs noticeably in several behavioural respects from its younger counterparts. Nutrition Canada data show that the population 65 and over has higher recorded dietary deficiencies of protein, calcium, niacin, and vitamins A, B1, B2, and C than the population in general. An examination of consumer expenditures on food shows that the senior population frequently neglects cheaper sources of nutrition in favour of high cholesterol foods or carbohydrates.(11) Lower income is not the only explanation for their poorer nutritional status.

The increasing incidence of non-smokers in the population points to a consciousness of smoking's role in contributing to lung cancer and other respiratory and heart diseases. In the male population 15 years and over in Ontario, the percentage of non-smokers has climbed from 36.9 per cent in 1965 to 52.8 per cent in 1977. The figures for women show less improvement since they have always smoked less than have men, moving from 65.9 per cent in 1965 to 67.1 per cent non-smokers in 1977. At present the population 65 and over shows 64.1 per cent of males and 85.4 per cent of females to be non-smokers.(12) The inference is not only that the older population smokes less, but also it is non-smokers who survive.

Reductions in air and water pollution, which have improved the environment for us all, have been accompanied by a reduction in the hazardous conditions of many jobs. Men working in mines, mills and factories where their predecessors were exposed to severe risks of lung diseases and other health problems now are, to a greater extent, protected against such risks. Fewer of them, therefore, will approach the retirement years with their health impaired from the workplace, or worse, die prematurely from hazardous working conditions.

The use of seatbelts, which is mandatory in Ontario, coupled with lower speed limits has been credited with saving lives and dollars. Reductions in deaths and disabling accidents since the legislative changes took effect were referred to by the Premier of Ontario in April of 1978. (13) Since automobile accidents are the greatest cause of death for young males, the effects on survival are self-evident. As the figures in Table 8 showed, in spite of the growth in population, the number of deaths in Canada from this cause dropped between 1971 and 1976. Greater awareness of the value of preventive check-ups for cancer, particularly breast and cervical cancer which are major causes of death in women over age 35, will enhance the already higher survival rate of women.

In combination, these factors point to greater longevity and better health on reaching age 65. At present, those over 65 show heavy incidence of diseases which can be linked to negative behavioural choices

earlier in life: cardiovascular and respiratory diseases, and cancers, particularly of the lung, all result in heavy demands on medical and hospital systems, with resulting high costs to society.

Persons over 65 use medical facilities disproportionately, though much of the high expenditure results from use by those in the "old old" category - over 80 or 85. The Ontario Council of Health found in its research that the over-65 population representing at present 8.56 per cent of the population utilized 16.2 per cent of all medical services rendered in a specific year and 33 per cent of all acute hospital bed days in a typical year.(14) It cited figures for utilization of different medical services by persons 65 and over, as at March 31, 1977:(15)

therapeutic radiologists	35.86 per cent
psychiatrists	32.68 per cent
urologists	28.16 per cent
osteopaths	24.95 per cent
ophthalmologists	24.63 per cent
general surgeons	23.17 per cent
internists	22.56 per cent
general practitioners	17.14 per cent

While high utilization of these services is understandable in the light of the normal deterioration associated with age, some people argue that much of the medical care required by the senior population stems more from social practices than physical condition. This view is advanced in an article by Dr. Charles Godfrey which appears in Canadian Family Physician. He argues that a sudden transition from being active and needed to being passive and useless - particularly in cases of forced retirement - can be blamed for some of the medical problems faced by those over 65. He writes:

> "Senior citizens are the major consumers of medications in our society. Admission to geriatric wards due to adverse drug reactions may be as high as one in ten. Aside from pills for senile diabetes, decompensated heart action and possibly degenerative musculo-skeletal disorders, there is an inordinate consumption of psycho-pharmaceuticals.
>
> "States of depression, anxieties, sleeplessness and general lack of mental wellbeing are rarely due to the simple physical factors of an aging body. Rather the effects of the psychosocial impact of being unneeded, on a psyche which has been oriented to the work ethic, is the major disease factor."(16)

The Ontario Council on Health urged a search for lower-cost medical services for the elderly, citing some examples of how the structure of programs at present can contribute to the higher costs. They take the case of the Ontario Drug Benefit Plan:

"...a policy decision has been taken to limit to one month the supply of any prescribed drug and thus further prescriptions must be filled as many as 12 times per annum on the authorizing of a physician(17)....One consequence of this policy is the fact that in 1976, the average number of prescriptions for beneficiaries under the plan was 11 and in the case of the elderly the number may well have been higher. Each prescription costs the people of Ontario a dispensing fee received by a pharmacist. The data provided to the Task Force revealed that more than 40 percent of the expenditures under the Drug Benefit Plan in 1976 were incurred to pay dispensing fees."(18)

Regardless of what changes are adopted to restrain the costs of health care to the elderly, the fact remains that since their numbers are swelling, the increased tax burden will fall on those in their working years. We know from taxation statistics that 20.9 per cent of the population 65 and over were taxpayers in 1976, as against 62.8 per cent for those between 20 and 64.(19) The question therefore becomes one of how many persons in future will reach age 65 and what their dependency status will be. The cost of government programs for the elderly is discussed in the chapter on economic considerations.

Social Characteristics

The danger in any examination of the retired is the unstated assumption that all retired persons or all over a certain age can be dealt with as a homogeneous group. Spanning a range of 30 years or more, those aged 65 and over are no more identical in composition or attitudes than are all adults under age 30 for example. Age alone is insufficient explanation for many characteristics; and attitudes and similarities are more frequently perceived by persons observing from outside than felt by those within the group. In commenting on attitudes and behaviour, Morris M. Schnore explains:

"Any observed differences in attitudes and behaviour between young and old cannot be attributed to changes that occur inevitably over time as a result of aging. Any differences between members of different generations may be a result of having lived through different historical time periods and, consequently, having been exposed to different socio-cultural events and influences. Such differences in generations are referred to as 'cohort' effects, to distinguish them from intrinsic effects of aging. Even when people of different ages live through the same event, one may expect that they will be affected by the event in different ways because of the differences in their past experiences."(20)

Keeping in mind that the retired group spans two generations, we shall examine them where possible as they split and regroup into different sub-parts according to various social characteristics and concerns in this section and according to income level in the next section.

Living Arrangements

Over three-quarters of the population age 65 and over in Ontario and Canada live in urban areas as does the population in general.

Table 9
Urban and Rural Population, by Age, Canada and Ontario, 1976

	Canada		Ontario	
	(Thousands)	(Per cent)	(Thousands)	(Per cent)
Urban (total)	17,367	75.5	6,709	81.5
Rural (total)	5,626	24.5	1,526	18.5
Urban (65 and over)	1,541	77.0	605	81.9
Rural (65 and over)	461	23.0	134	18.1

Source Statistics Canada, Census of Canada, 1976.

Only 8.7 per cent of the elderly (10 per cent of women and 6 per cent of men) in Canada in 1976 lived in collective housing which includes nursing homes, rooming-houses, and other institutions.

Table 10
Tenure of Housing of Population Aged 65 and Over, by Sex of Household Heads, Canada and Ontario, 1976

	Canada		Ontario	
	(Thousands)	(Per cent)	(Thousands)	(Per cent)
Tenure				
Owned				
Male	525	69.3	190	66.9
Female	233	30.7	94	33.1
Total	758			
Rented				
Male	195	46.4	65	42.6
Female	226	53.6	88	57.4
Total	1,179			

Source Statistics Canada, Census of Canada, 1976.

In terms of tenure and housing the older population does not differ markedly from the total population. However, those aged 65 and over live in single family detached housing to a greater extent and own their own dwellings in greater proportion. Of the retired respondents in the Consumer Survey, 85.2 per cent lived in a single family home. The differences in housing tenure are greater between men and women in both the total population and the population 65 and over. Women own their own homes less frequently than men and are more often renters. In addition, the majority of elderly women, about 70 per cent, lived alone in 1976.

Table 11
Tenure of Dwellings, Household Heads, Ontario, 1971

Population		Tenure Owned	Tenure Rented	Median Value	Reporting a mortgage
		(Per cent)		(Dollars)	(Per cent)
Total	2,225,205	62.9	36.9	23,768	28.3
Male	1,851,825	66.6	33.3	24,378	32.1
Female	373,380	44.7	55.2	19,051	9.3
65 and over	362,935	69.6	30.3	18,528	7.3
Male	220,485	77.4	22.5	18,945	8.9
Female	142,455	57.5	42.3	17,525	4.8

Source Statistics Canada, Census of Canada, 1971.

Those 65 and over not only have a lower incidence of owing money on a mortgage but also have lower consumer debt than the younger population. The average debt of those 65 and over was $172 in 1970 compared to $1,337 for those 34 and under and $1,038 for those aged 35 to 44. Almost 80 per cent of those 65 and over had no consumer debt compared to 37 per cent for those aged 35 to 44, 39 per cent for those aged 45 to 55, and 54 per cent for those aged 55 to 64. In 1976, 65 per cent of household heads in Ontario 65 and over owned their dwelling and 35 per cent were renters.

Education and Origin

In terms of education, the levels currently available were not the norm for the senior population when they were young, and they exhibit lower educational levels as a consequence. Over half of those aged 65 and over have less than grade 9 education compared to less than one-quarter of those between the ages of 25 and 64.

Table 12
Educational Attainment by Age and Sex, Ontario, 1976

	Age 25-64(a) Male	Age 25-64(a) Female	Age 65 and over Male	Age 65 and over Female
		(Per cent)		
Less than Grade 9	22.5	23.1	57.5	53.6
Grades 9-13	33.6	45.8	26.1	28.4
Post-secondary non-university	13.5	17.3	6.7	12.0
University without degree	3.9	2.7	2.5	1.6
University degree	.9	.6	.7	.4

a To allow for normal termination of education age 25 has been chosen.

Source Statistics Canada, Census of Canada, 1976, Cat. 92-827, Vol. 2, Table 33.

A similarity between the two age groups is the lower education levels of women regardless of age. As we shall see, education correlates positively with income - a factor which therefore sets the older population apart from the rest, and women apart from men.

The immigration patterns which contributed to the make-up of the present population 65 and over differ markedly from those of the more recent past. While the strong proportion from the British Isles and the United States is common to both, we find that, in the older population, other northern European countries predominate, as compared to the southern European, Caribbean, and Asian sources of recent arrivals. Mother tongue is an imprecise measure of ethnic background, but the relative predominance of certain languages in the senior population may be of significance.

Table 13
Mother Tongue(a) of Population by Age Group, Ontario, 1976

Population 65 and over		Population 0-64	
Rank	Percentage of total	Rank	Percentage of total
English	75.5	English	78.4
French	5.0	French	5.7
German	2.8	Italian	3.9
Italian	2.7	German	1.9
Ukrainian	2.2	Ukrainian	0.8
Polish	1.4	Netherlands and Flemish	0.8
Netherlands and Flemish	0.9	Chinese and Japanese	0.7
Chinese and Japanese	0.6	Greek	0.6
Greek	0.3	Polish	0.6
Native Indian	0.2	Native Indian	0.3

a "Mother tongue" is defined as the first language learned that is still understood.

Source Statistics Canada, Census of Canada, 1976, Cat. 92-833, Vol. 8, Table 1.

Recent immigration patterns in both Canada and Ontario show origins that will continue to contribute to the predominant English-language component, particularly since the United Kingdom is often a stopping-off point for immigrants from other Commonwealth countries. However, their origins differ from the British Isles origins of preceding generations.

Table 14
Immigrants by Country of Last Permanent Residence, Canada and Ontario, 1971-76

Canada	Number	Ontario	Number
United Kingdom	155,603	United Kingdom	88,287
United States	136,237	West Indies(a)	63,520
West Indies(a)	95,057	United States	52,009
Portugal	61,601	Portugal	44,682
Hong Kong	60,529	Hong Kong	25,943
India	49,310	India	23,479
Philippines	37,750	Italy	20,133
Italy	30,952	Philippines	19,285
Greece	26,799	Greece	14,778
France	20,668	Yugoslavia	11,951

a Figures for 1973 to 1976 are for Caribbean countries.

Source Ministry of Treasury, Economics and Intergovernmental Affairs, Ontario Statistics, 1977, Vol. 1, Social Series, Table 3.15, p. 92.

Work-force Participation

While it is impossible to determine retired status precisely from labour force figures, the pattern of diminishing work-force attachment after age 55 is clear, as is the large drop-off for both sexes at age 65 when public programs become available. Figures for the past four years demonstrate this pattern:

Table 15
Labour Force Participation Rates by Sex, Persons 45 and Over, Canada, 1975-78

	1975		1976		1977		1978	
	Male	Female	Male	Female	Male	Female	Male	Female
					(Per cent)			
45-54	92.7	46.1	92.5	48.3	92.4	49.2	92.9	51.0
55-64	79.3	30.8	76.7	32.0	76.5	32.2	76.5	32.8
65-69	29.9	9.6	25.4	7.8	25.1	8.5	23.5	7.8
70 and over	11.0	2.3	9.8	2.2	9.2	2.0	9.6	2.7

Source Statistics Canada, Labour Force Annual Averages, 1975-78, Cat. 71-529, pp. 9-12.

Since work-force participation of women is increasing, the decline at age 55 starts from a higher point each year, though the pattern of decline remains fairly constant. It can be seen that women increasingly

will be facing retirement from the work-force with all its psychic and social implications, as a factor in their own lives. For women already in the higher ages, however, work-force participation was not taken for granted; therefore "retirement" is not something they have experienced personally.

Not surprisingly the work patterns of those 65 and over who remain in the work-force are noticeably different from their younger counterparts. While work is still predominantly full-time, the proportion of part-time work is greater than at younger ages. For the last four years, for example, those 15-24 worked 78-80 per cent full-time; those between 25 and 64 worked 90-92 per cent full-time, as against 72-76 per cent for persons 65 and over.(21) This arrangement is obviously by choice since two-thirds of the part-time workers 55 and over (no breakout for 65 and over) listed as the reason "did not want full-time work." This compares with just over half between 25 and 54 years.(22) For many in the older population, therefore, part-time work is a means of keeping active as well as a source of income. The Health and Welfare survey asked the reason for working or looking for work (full or part-time) and received the following responses:

Table 16
Reason for Working or Looking for Work, Retired Persons, by Sex

	Retired Men	Retired women
	(Per cent)	
To earn money	43.9	45.3
To keep physically healthy	25.1	11.9
To keep in touch with people	10.7	19.7
Other	20.3	23.1

Source Health and Welfare Canada, Retirement in Canada, Vol. II, p. 37.

A further examination of paid workers 65 and over illustrates the importance of income as a reason for working. Figures are based on a labour force sample for the 1976 Census, since current labour force figures do not show marital status for persons 65 and over. (This in itself is indicative of society's attitude toward those 65 and over, who are no longer expected to be in the active category. Unemployment insurance terminates at age 65, and detailed information is no longer kept on those who continue in paid employment. Persons 65 and over without jobs, therefore, can only be retired - not unemployed - in the terminology of public support programs.)

The heavy representation of single women and married men in the labour force points to the traditional breadwinner concept; the low representation of married and previously married women underlines a lifetime of family and household responsibilities with a consequent lack of work-force skills. For those who are in the work-force, however, there is obviously a desire and willingness to contribute to their own well-being,

financial, physical, and mental. However, we know that 85 per cent of men and 95 per cent of women in this age group are not in the labour force, and it is this large segment which retains our attention.

Table 17
Population and Labour Force Activity of Persons Age 65 and Over by Sex and Marital Status, Canada, 1976

	Population		Labour force	
	Male	Female	Male	Female
		(Number)		
Total	875,405	1,126,930	167,965	78,300
		(Per cent)		
Single	9.6	10.3	9.0	27.6
Married	74.0	38.7	81.4	34.3
Widowed/divorced	16.5	51.0	9.6	38.1

Source Statistics Canada, Census of Canada, 1976, Cat. 94-805, Vol. 5.

Retirement Age

Retirement tends to occur around age 65. Respondents in the Consumer Survey showed 54.6 per cent retiring or planning to retire between 61 and 65. The Health and Welfare survey showed 63.8 per cent of the men choosing 65 or lower and 46.4 per cent of the women choosing 60 or lower. General satisfaction with the age of retirement, regardless of the reason for it, was evident. In the Consumer Survey 56.2 per cent of the respondents would not have chosen to retire at a different age; in the Health and Welfare survey 52.8 per cent of the retired men and 64.8 per cent of the retired women were content with their decision. Unfortunately neither survey examines responses according to the marital status of the respondents, which means that we are unable to judge whether married women, traditionally two or three years younger than their husbands, tend to retire when their husbands do and therefore exhibit differences from the single women surveyed.

The satisfaction factor is worth examining in the light of reasons for retirement, which, in the Health and Welfare survey, are as follows:

Table 18
Reasons for Retirement, by Sex

	Retired men	Retired women
	(Per cent)	
Compulsory retirement	28.6	10.8
Poor health	34.3	37.5
Other	28.6	39.3
Laid off	6.7	4.4
No answer	1.8	8.1

Source Health and Welfare Canada, Retirement in Canada, Vol. I, Table 2, p. 9.

Table 19
Factor Responsible for Not Retiring at Preferred Age, by Sex of Retiree

	Men	Women
	(Per cent)	
Compulsory	33.4	12.8
Other	22.6	18.9
Poor health	57.0	42.0
Laid off	47.1	44.3

Source Health and Welfare Canada, Retirement in Canada, Vol. I, Table 4, p. 23.

From the survey it appears that poor health caused earlier retirement in most cases, and therefore left the retirees financially unprepared for retirement and unable to continue gainful employment. In addition any employment pension income may have been reduced because of early retirement.

The importance of health as a factor affecting the choice of retirement age is borne out in the Consumer Survey. It was the most important factor listed by retired respondents if the choice to retire at a particular time had been entirely up to them:

State of health	80.0 per cent
Financial position	66.8
Responsibility to dependents	25.0
Job interest/involvement	24.8
Marital status	18.4
Level of other activities	16.3

In addition, for this group health was the second greatest area of concern in retirement after the ability to remain in their own homes, and ranking higher than loneliness or the death of a spouse. This heavy emphasis on health might reinforce the stereotype of the elderly as an increasingly frail if not bedridden segment of the population, with declining overall capacities. While appropriate enough for some in the "old-old" category - over 85 for example, and more likely to be institutionalized - this generalization is far too sweeping. In fact, fewer than 10 per cent of those 65 and over are in institutions. Arguments against such a stereotype are found in several background papers prepared for the National Symposium on Aging, held in Ottawa in October of 1978.

Dr. J.R.D. Bayne -

> "Although the peak of physical strength and agility is passed in early adult life, learning ability is maintained and judgment based on experience can be expected to improve into advanced years."(23)

Morris M. Schnore -

> "...recent research findings...indicate that intelligence continues to increase into adulthood and, in relatively healthy people, only a relatively small decline becomes evident in the 60's and 70's. It has become apparent that much of the difference in performance on intelligence tests between the young and old is not due to a decline in intelligence in the old, but a result of higher performance levels in successive generations of the young....It is well known that the level of education is positively related to performance on intelligence tests...and the young, who are better educated than the old, consequently, perform better on intelligence tests. (24)

From a recent U.S. study -

> "Health status as the reason for retirement appears to vary with occupational category. There is evidence that health status is more critical for workers whose jobs require considerable physical effort."(25)

A further factor which must be considered is that in a generation with strong attachment to the work ethic, not working had serious implications in terms of social attitudes unless there was a socially acceptable reason for it. Health has always been a "legitimate" reason for withdrawal from the work-force; as a consequence, retirees might tend to over-emphasize the health aspect as opposed to less socially acceptable excuses such as boring jobs, or the feeling that job demands were too heavy.

While we can appreciate that ill health may cause premature withdrawal from the work-force and consequent financial hardship, we find that financial security alone is insufficient reason for "early" retirement. The Health and Welfare survey posed the question whether the retired persons would have been willing to retire five years earlier if they could have had their current standard of living. While such a question assumes that current living standards are adequate, the response nevertheless was interesting:

- 18.3 per cent of the men and 19.0 per cent of the women would have retired;

- 20.9 per cent of the men and 31.9 per cent of the women were not sure;

- 13.2 per cent of the men and 8.1 per cent of the women would have retired and taken a part-time job;

- but 47.6 per cent of the men and 41 per cent of the women would have kept working.(26)

A recent U.S. study of attitudes toward retirement found a similar positive attitude to continuing in the work-force, with 88 per cent of current employees, 87 per cent of retired employees, and 67 per cent of business leaders agreeing with the statement: "Nobody should be forced to retire because of age, if he wants to continue working and is still able to do a good job."(27) When questioned about personal preference a surprising number, as in the Health and Welfare study, opted to continue working. Some 26 per cent of current employees would prefer to retire at the normal age; 22 per cent would retire before the normal retirement age; but 51 per cent would choose to remain in the work-force in some capacity:

- 8 per cent would retire at the normal or early retirement date and work for another employer;

- 14 per cent would continue full-time in their same position for the same pay;

- 5 per cent would work full-time for less pay in a less demanding position;

- 24 per cent would work part-time.(28)

Intentions, as might be expected, varied according to the type of position held, with hourly wage and salaried workers more likely than the self-employed to elect retirement.

In comparing these attitudes with expectations about retirement income from various sources, as found elsewhere in the Health and Welfare study, the authors comment:

> "The findings in Chapter 1 suggest that the pressures on government and business for increased retirement income benefits - stemming from an increase in the number of retirees and from inflation - are likely to mount considerably in the upcoming years. But the findings here suggest the cloud may have a silver lining. In the long run, more and more people are likely to defer retirement and work until a later age. This may greatly lessen the burden of retirement income costs on government and business: while the trend is strongly suggested by the findings, however, it should not be viewed as a sure-fire safeguard that will balance the pressures for increased retirement benefits. These pressures are likely to be strong, and business and government would be well-advised to seek active solutions to the problem."(29)

However, intentions and reality in the matter of continuing work-force participation often differ. And so it is not surprising to find fewer retirees actually working for pay than the number now in the work-force who express the intention of remaining active. The Health and Welfare survey found 43 per cent of the active respondents intending to

work for pay or profit in retirement; but only 5 per cent of the retirees were actually doing so.(29) It must be kept in mind, however, that in many cases a continuation of work-force participation means searching for a new job. The option of continuing in their former positions simply does not exist, because of mandatory retirement policies.

Concerns

The psychic shock of a changed lifestyle on retirement stems from both financial and behavioural changes: income is usually reduced, leisure time has to be filled, and embarking on this stage of life is not without pain. The fear of future loneliness as former colleagues drift away, friends and spouses die, and families become separated if the retired move to a warmer climate all have to be faced. Some areas of anxiety are documented in the Consumer Survey. Of particular interest to the Commission, the financial worry is not ranked as high as are some of the more human factors.

Table 20
Percentage of Retired Respondents Expressing Concern about Certain Factors in the Future

	Very concerned	Fairly concerned	Not terribly concerned	Not at all concerned	No answer
			(Per cent)		
Remain in own home	58.6	15.7	10.6	4.2	10.9
Death of spouse(a)	50.5	12.0	8.1	11.8	17.6
Losing independence	50.2	19.6	13.2	5.4	11.5
Remaining active	49.3	18.4	13.3	6.7	12.4
Health	47.5	25.6	13.0	3.0	10.9
Contact with children	45.4	18.4	10.2	13.3	12.7
Finances	44.5	21.1	16.3	7.3	10.9
Death of friends	39.6	28.6	15.4	4.8	11.5
Loneliness	22.1	18.2	32.9	15.4	11.5

a At the time of the survey 66.5 per cent of the retired were married.
Source Royal Commission on the Status of Pensions in Ontario, Consumer Survey.

The above table can be read as a very positive statement about remaining an active and independent participant in society; any structures which society erects to isolate or segregate its older members are likely to be resisted.

INCOME OF THE RETIRED

The traditional concept of retirement as a withdrawal from activity has conditioned us all to expect that reduced involvement, expectations and income will be a part of the retired existence. The end of bargain-

ing power in the work-force usually meant the end of any demand on society for support and old age was a time for making do with whatever resources were available. At present we are in a transitional phase. "Profile of the Retired" has shown what factors are contributing to increased longevity and better health in retirement. People are retiring at an earlier age, some of them with better expectations of income from employment pension plans and private arrangements such as Registered Retirement Savings Plans. Retirement, for many, is evolving into a fourth stage of activity after childhood, education, and work.

Many now over 65, however, must cope with the new expectations of retirement with inadequate financial support. For them the situation is particularly difficult since they are physically active and eager to be a part of their community; but such involvement frequently entails financial outlays beyond their means.

We shall see in the following chapter how government programs are structured to provide a guaranteed income to pensioners; how various tax exemptions and credits benefit persons 65 and over; and how discounts and reduced fees for services enhance the income picture for many pensioners and encourage them to remain active. This section will examine the income for the retired as measured in published studies, and will discuss the sources of such income. As is common in published sources, the population is broken out by age group without regard to active or retired status. In the Commission's Consumer Survey, however, the retired have been defined as those in receipt of a pension other than a disability pension, and for whom paid employment contributes to less than half of their total income.

As previously outlined, the sample for the Consumer Survey is consistent with population distribution in the 1976 Census. It must be remembered, however, that of the 165 "retired" respondents, 35 are under age 65; of the non-retired, 42 are over age 65. The figures used will be for Ontario unless otherwise stated; income in Ontario is generally higher, before and after retirement, than the national average.

Levels of Income

When examining the income of the population aged 65 and over it is well to keep in mind the Statistics Canada low income cut-off levels, which are computed by family size and area of residence. Statistics Canada defines families and individuals as "low-income" if they spend 62 per cent or more of their income on food, clothing, and shelter.(30)

The low income cut-off levels for single persons and couples, most relevant to the retired population, in 1976 were:

Table 21
Low Income Cut-offs of Family Units,(a) Canada, 1976(31)

	Size of area of residence				
	500,000 and over	100,000-499,999	30,000-99,999	Less than 30,000(b)	Rural
			(Dollars)		
1 person	4,117	3,853	3,742	3,442	2,992
2 persons	5,966	5,587	5,425	4,989	4,341

a This table represents the revised cut-offs. For information on the original levels see: J.R. Podoluk, Incomes of Canadians, Queen's Printer, 1968. For information on the revised cut-offs, an unpublished paper, "Revision of Low Income Cut-offs" is available from Statistics Canada.

b Includes non-metropolitan cities (with a population between 15,000 and 30,000) and small urban areas (under 15,000).

Source Statistics Canada, Income Distributions by Size in Canada, 1976, Cat. 13-207, p. 25.

Age and sex breakouts are not available in the income distribution figures for provinces; as a consequence we will be using Canadian figures which are slightly lower than those of Ontario. For example, average and median incomes in 1976 for families and unattached individuals (32) in the various regions are shown in Table 22.

Table 22
Average and Median Incomes of Families and Unattached Individuals, Canada and the Regions, 1976 (31)

	Average income	Median income
	(Dollars)	
Canada	16,095	14,030
Atlantic provinces	13,311	11,608
Quebec	15,652	13,604
Ontario	16,981	14,933
Prairie provinces	15,569	13,161
British Columbia	17,107	15,069

Source Statistics Canada, Income Distributions by Size in Canada, 1976, Table 25, p. 58.

Table 23 shows the average and median income of families and individuals for Canada.

In its report(33) on the incomes of elderly Canadians in 1975, Health and Welfare Canada found it was quite clear that single individuals are not so well off as couples. Overall, the average income of single individuals ($3,796) was only 43.4 per cent of the average for all couples ($8,746).(34) Single women fared worse than single men, averag-

ing only $3,612 or 41.3 per cent of the couples' average, versus $4,270 or 48.8 per cent for men. Over 70 per cent of single individuals were women and about 85 per cent of these were widows.

Table 23
Average and Median Incomes of Families Headed by Persons 65 and Over, Unattached Individuals 65 and Over and All Individuals 65 and Over with Income, by Sex, Canada, 1976(32)

	Male		Female	
	Average	Median	Average	Median
	(Dollars)			
Families(a)	11,644	8,090	13,794	10,339
Unattached individuals(b)	6,672	3,759	4,332	3,395

a 1,154 male families and 130 female families in sample. The significantly higher incomes shown for families headed by females is attributable partly to the small size of the sample and also to the inclusion of earnings of children living at home.

b 233 male unattached individuals and 631 female unattached individuals.

Source Statistics Canada, Income Distributions by Size in Canada, 1976, pp. 40, 41, 55.

The poorest couples were those where both spouses were over age 66, receiving $7,951 on average in 1975 compared to $9,283 for those couples with only the husband aged 66 or over.

The report compared the average income of elderly census families with those of younger age groups and found that pensioners were not nearly so well off. Census families with heads aged 45-54 had an average income of $19,955 which is 68 per cent and 122 per cent higher than the average income of census families with heads aged 65-69 ($11,890) and with heads 70 and over ($8,977) respectively.(35)

In 1975, 61 per cent of unattached senior citizens (374,000) and 22 per cent of elderly couples were below the Statistics Canada low income cut-offs.(36)

The Consumer Survey also attempted to establish the individual and family income levels of respondents. Breakouts for the retired segment appear in Table 24. It should be noted that some of the retired are not eligible for government income guarantees - 35 of the 165 in that group are under 65 years of age. While no correlation is available between income and age for the retired respondents, the knowledge that income guarantees of $310.75 a month (single) and $621.50 a month for a couple were available through OAS/GIS/GAINS at the time of the survey lead us to conclude that there is little chance that the very low respondents are over age 65. Consequently, income levels cannot fairly be compared with Table 22.

Again with reference to Table 24, a high percentage of respondents chose not to answer or refused to supply the information; accordingly, the percentages shown (of those answering the income questions) should be regarded as only an approximation of the income situation of the retired respondents.

Table 24
Income Distribution of Retired Persons: Personal and Family Income

	Personal income		Family income	
(Dollars)	(Number)	(Per cent)	(Number)	(Per cent)
Under 2,000	20	16.7	6	5.3
2,000- 2,999	8	6.7	3	2.7
3,000- 3,999	21	17.5	11	9.7
4,000- 4,999	15	12.5	3	2.7
5,000- 5,999	4	3.3	7	6.2
6,000- 6,999	14	11.7	15	13.3
7,000- 7,999	6	5.0	16	14.2
8,000- 8,999	4	3.3	8	7.1
9,000- 9,999	2	1.7	4	3.5
10,000-14,999	14	11.7	17	15.0
15,000-19,999	6	5.0	10	8.8
20,000 and over	6	5.0	13	11.5
Total	120	100.0	113	100.0
No response(a)	45		52	
Total in survey	165		165	

a Refused, did not know, or invalid response.

Source Royal Commission on the Status of Pensions in Ontario, Consumer Survey.

We must assume that those who retired under 65 did so for reasons other than compulsion, since workers in Ontario are protected from dismissal because of age up to 65. That they have not taken post-retirement employment points to several possible explanations:

- they cannot find employment;
- their income is felt to be adequate;
- they retired because of ill health, or other reasons which make continued work-force participation impossible or impractical.

While we cannot clearly identify the low-income pensioners, data from the "Profile of the Retired Respondents" in the Consumer Survey help to identify some relevant factors:

- those with annual incomes under $6,000 had been retired longer (9.0 years) than those with incomes of $20,000 and over (5.5 years);
- the women had been retired longer (10.1 years) than had the men (6 years);
- those with lower education had been retired longer (8.2 years) than the average (7.5 years); and
- those without employment pensions had been retired longer (9.1 years) than those who were receiving them (5.5 years).

We have seen the sex differences from income distribution figures in Table 23. Comparison with education levels is provided in figures for Canada showing 1976 distribution of income in Table 25.

The effect of education on the earnings of both sexes is apparent. It is equally obvious, however, that sex is an important income determinant in the job market. Women with a university degree are more sparsely represented in the top brackets than are men who did not complete high school.

Since we know that employment after age 65 ceases to be a major source of income for the retired, we shall examine what the principal sources are for the elderly population.

<u>Sources of Income</u>

Tables 26 to 29 show the sources of income of the elderly population in Canada. Tables 28 and 29 show the sources of income for single individuals by sex.

Table 26 shows that 42.7 per cent of all income of couples where one spouse is aged 66 or over and 58.4 per cent of all income of single individuals aged 66 and over came from government programs in 1975. About 20 per cent in both groups came from investment income, and between 11.5 and 13.5 per cent came from retirement pensions. Only 21 per cent of single individuals aged 66 and over and 40 per cent of couples received any retirement pension income at all.(37)

Women aged 65 and over have a greater dependence on income from government programs than men and received less income from employment pensions. OAS and GIS constituted 53.6 per cent of income of single females 65 and over in 1975 (44.3 per cent for single males) and retirement pensions constituted 10.2 per cent of income of single females and 14.1 per cent of income of males.

Table 25

Percentage Distribution of Individuals by Income Groups, Education, and Sex, Canada, 1976

	Grades 0-8		Some high school		Some post-secondary		Post-secondary certificate or diploma		University degree	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
(Dollars)					(Per cent)					
Under 2,000	6.9	29.4	11.7	31.1	9.4	31.7	2.7	18.8	3.2	15.0
2,000 - 2,999	8.8	23.9	4.2	9.7	6.0	12.6	3.3	8.7	3.9	7.6
3,000 - 3,999	9.3	13.9	4.2	8.3	7.0	9.0	3.5	6.5	1.8	6.1
4,000 - 4,999	6.3	8.7	3.8	7.2	5.4	5.4	2.4	6.4	3.1	5.3
5,000 - 5,999	6.6	5.9	4.1	6.9	3.8	5.3	3.3	6.7	2.3	4.4
6,000 - 6,999	5.2	5.2	4.2	6.9	3.0	4.7	2.9	7.1	2.3	6.5
7,000 - 7,999	5.5	3.6	4.2	6.9	3.1	7.0	2.8	5.5	2.1	2.8
8,000 - 8,999	4.5	3.1	4.3	6.5	3.6	4.9	2.2	5.4	2.0	3.1
9,000 - 9,999	6.3	2.1	4.6	4.5	3.8	4.4	3.2	4.7	1.6	3.5
10,000 - 14,999	22.5	3.4	25.7	9.9	24.6	10.9	29.4	22.5	15.9	20.8
15,000 - 19,999	11.6	0.4	17.6	1.2	15.4	2.8	26.0	6.2	18.9	14.2
20,000 and over	6.4	0.4	11.5	0.7	14.9	1.3	18.3	1.6	42.9	10.8

Source Statistics Canada, Income Distributions by Size in Canada, 1976, Cat. 13-207, Table 43, p. 74.

Table 26
Percentage Composition of Income of Couples, Husband Aged 66 or Over and Wife Any Age by Income Class, Canada, 1975

Type of income	Under $4,000	$4,000- 5,999	$6,000- 7,999	$8,000- 12,499	$12,500 and over	All income classes
	(Per cent)					
OAS/GIS	82.4	68.7	47.5	24.3	10.7	34.8
CPP/QPP	5.5	6.0	6.1	5.4	2.7	4.6
Social assistance provincial supplementation	2.7	3.3	2.6	.2	.0	1.2
Other(a)	.3	1.2	2.6	3.5	1.7	2.1
Sub-total government programs	90.9	79.2	58.8	33.4	15.1	42.7
Investment income	5.1	9.9	14.8	22.7	28.7	20.2
Retirement pensions(b)	2.3	7.3	16.8	20.0	13.3	13.5
Sub-total private arrangements	7.4	17.2	31.6	42.7	42.0	33.7
Earnings	.7	3.2	8.7	23.0	41.6	22.6
Total(c)	100.0	100.0	100.0	100.0	100.0	100.0
Average income in class	$3,148	$5,147	$6,854	$9,992	$21,176	$8,485
Sample size	289	687	350	307	224	1,857
Estimated numbers	68,000	150,000	94,000	87,000	70,000	468,000

a Veterans' pensions, civilian war allowances, workmen's compensation, etc.

b Includes income from employment pension plans, miscellaneous superannuation, and income from annuities.

c Total includes "Other income" which is not included in the above categories.

Source Statistics Canada, Survey of Consumer Finances, microdata tape on 1975 incomes of Census Families. Estimates by National Health and Welfare.

Table 27
Percentage Composition of Income of Single Individuals Aged 66 and Over by Income Class, Canada, 1975

Type of income	Under $3,500	$2,500-2,999	$3,000-5,999	$6,000 and over	All income classes
			(Per cent)		
OAS/GIS	87.5	87.8	50.2	15.4	50.7
CPP/QPP	2.0	2.2	4.8	3.4	3.4
Social assistance provincial supplementation	3.0	2.7	2.8	.5	2.0
Other(a)	.9	.6	2.7	3.4	2.3
Sub-total government programs	93.4	93.3	60.5	22.8	58.4
Investment income	5.4	4.3	20.3	37.6	21.1
Retirement pensions(a)	1.6	1.9	13.4	19.0	11.5
Sub-total private arrangements	7.0	6.2	33.7	56.6	32.6
Earnings	-.7	.2	4.0	20.0	8.1
Total(c)	100.0	100.0	100.0	100.0	100.0
Average income in class	$1,761	$2,715	$3,945	$9,833	$3,796
Sample size	654	920	752	290	2,616
Estimated numbers	226,000	758,000	273,000	116,000	872,000

a Veterans' pensions, civilian war allowances, workmen's compensation, etc.

b Includes income from employment pension plans, miscellaneous superannuation, and income from annuities.

c Total includes "Other income" which is not included in the above categories.

Source Statistics Canada, Survey of Consumer Finances, microdata tape on 1975 incomes of Census Families. Estimates by National Health and Welfare.

Table 28
Percentage Composition of Income of Single Males Aged 66 and Over by Income Class, Canada, 1975

Type of income	Under $2,500	$2,500-2,999	$3,000-5,999	$6,000 and over	All income classes
			(Per cent)		
OAS/GIS	88.6	86.3	48.1	14.9	44.3
CPP/QPP	1.9	3.3	6.2	3.2	4.1
Social assistance provincial supplementation	2.5	2.6	2.1	.0	1.4
Other(a)	.0	.6	3.8	2.3	2.4
Sub-total government programs	93.0	92.8	60.2	20.4	52.2
Investment income	8.5	3.9	14.5	33.2	19.9
Retirement pensions(a)	3.3	2.6	17.1	18.7	14.1
Sub-total private arrangements	11.8	6.5	31.6	51.9	34.0
Earnings	-4.9	.7	6.4	26.9	12.9
Total(c)	100.0	100.0	100.0	100.0	100.0
Average income in class	$1,764	$2,715	$3,975	$10,177	$4,270
Sample size	166	256	247	103	772
Estimated numbers	55,000	62,000	85,000	42,000	245,000

a Veterans' pensions, civilian war allowances, workmen's compensation, etc.

b Includes income from employment pension plans, miscellaneous superannuation, and income from annuities.

c Total includes "Other income" which is not included in the above categories.

Source Statistics Canada, Survey of Consumer Finances, microdata tape on 1975 incomes of Census Families. Estimates by National Health and Welfare.

Table 29
Percentage Composition of Income of Single Females Aged 66 and Over by Income Class, Canada, 1975

Type of income	Under $2,500	$2,500-2,999	$3,000-5,999	$6,000 and over	All income classes
			(Per cent)		
OAS/GIS	87.1	88.2	51.2	15.8	53.6
CPP/QPP	2.0	1.9	4.2	3.6	3.2
Social assistance provincial supplementation	3.1	2.7	3.1	.7	2.3
Other(a)	1.2	.6	2.2	4.1	2.3
Sub-total government programs	93.4	93.4	60.7	24.2	61.4
Investment income	4.4	4.4	23.1	40.4	21.6
Retirement pensions(a)	1.1	1.7	11.7	19.1	10.2
Sub-total private arrangements	5.5	6.1	34.8	59.5	31.8
Earnings	.6	.1	2.8	15.8	5.9
Total(c)	100.0	100.0	100.0	100.0	100.0
Average income in class	$1,763	$2,713	$3,880	$9,635	$3,612
Sample size	488	664	505	187	1,844
Estimated numbers	172,000	195,000	187,000	73,000	628,000

a Veterans' pensions, civilian war allowances, workmen's compensation, etc.
b Includes income from employment pension plans, miscellaneous super-annuation, and income from annuities.
c Total includes "Other income" which is not included in the above categories.

Source Statistics Canada, Survey of Consumer Finances, microdata tape on 1975 incomes of Census Families. Estimates by National Health and Welfare.

The reliance on government programs is borne out by responses from the Consumer Survey showing the sources of pensions expected by those already retired (regardless of age):

Table 30
Expected Sources of Income from Government Pension Programs, Retired Respondents, Ontario, 1978

	Total
Number of respondents	165
	(Per cent)
CPP	74.0
OAS	90.7
GIS	18.1
GAINS	10.8

Source Royal Commission on the Status of Pensions in Ontario, Consumer Survey.

This compares with other important sources of income revealed in taxation figures:

Table 31
Sources of Investment Income for Persons 65 and Over by Sex, Canada, 1976

	Male	Female
	(Per cent)	
Bank interest	14.3	20.4
Bond interest	4.2	7.0
Mortgage interest	2.3	3.0
Taxable amount of dividends	4.3	7.4
Net rental income	2.0	1.8
Annuity income	1.2	.8

Source Revenue Canada, Taxation, Taxation Statistics, 1978, Table 4, p. 58-59.

The low percentage represented by CPP in the total income picture of persons 65 and over coupled with the high expectation of income from this source as it matures, (seen in Table 30) underlines the plight of those who retired before the plan came into operation, or in the early years of the plan when benefits were small. The growth in benefits can be perceived from Table 32 which shows the average of total CPP retirement benefits in pay at the end of 1978.

Lower initial benefits (and contributory earnings to some extent) in the early years of the plan account for the lower amounts at the higher ages. For women, lower amounts throughout show the effect of their generally lower earnings or shorter work history. As CPP matures, however, and as a higher proportion of women reaching 65 have some earnings-related pension awaiting them we find reliance on income-tested supplements waning. Historically, persons in Ontario have relied less

on the Guaranteed Income Supplement than have those in other provinces because of comparatively higher incomes. However the number of OAS recipients needing full supplementation has declined steadily in Ontario and Canada as a whole since 1972. The total receiving any supplementation is also dropping. During the period shown in Table 33 the guarantee levels have risen, so that the figures do not represent persons with income below the same amount over the years. The OAS/GIS guarantee in April 1971 was $1,620 (single) and $1,530 (couple, each). By April 1977 the figures were $2,929 and $2,794 respectively.

Table 32
Average Monthly CPP Retirement Pension by Age and Sex, Canada, December 1978

	Monthly average	
	Male	Female
	(Dollars)	
65	159.84	107.01
66	151.66	102.68
67	141.72	96.47
68	131.35	89.56
69	120.69	82.32
70	111.27	76.26
71-74	87.50	61.25
75 and over	46.88	35.33
Average, all ages	107.19	76.31

Source Health and Welfare Canada, Canada Pension Plan Statistical Bulletin, December 1978, Vol. 10, Number 4, Table 15, p. 15.

Table 33
Proportion of OAS Recipients Receiving GIS, Canada and Ontario, 1971-77

	Receiving GIS		Full		Partial	
	Canada	Ontario	Canada	Ontario	Canada	Ontario
			(Per cent)			
1971	50.0	42.0	27.5	19.1	22.5	22.9
1972	55.3	46.8	27.3	19.6	28.0	27.1
1973	57.8	49.4	26.2	19.1	31.2	30.4
1974	57.9	49.6	25.7	18.2	32.2	31.4
1975	56.5	48.5	24.0	16.9	32.5	31.6
1976	55.5	47.2	23.0	15.7	32.6	31.5
1977	55.3	46.6	21.5	14.3	33.8	32.3

a Fiscal year ending March 31.

Source Statistics Canada, Social Security National Programs, 1978, Cat. 86-201, Table I-4, p. 35.

The increases in income which are responsible for a decline in numbers requiring income supplementation through GIS have also resulted in declining numbers and expenditures for Ontario's GAINS program, which guarantees a level of income above the combined OAS/GIS maximum. This decline is seen in Table 11 in Chapter 3.

There are many ways both formal and informal in which people plan for retirement income.

In its consumer survey the Royal Commission asked respondents about expected sources of retirement income. Responses were compared with the ways in which respondents were actually providing for retirement income. All respondents were asked: "What sources of retirement income do you (did you) expect to have when you retire(d)?" In total, nineteen specific ways in which a person could acquire money for retirement income were read to the respondents. Results for the eight most mentioned sources, excluding government related sources, are shown in Table 34.

Table 34
Sources of Expected Retirement Income, by Total Family Income

	Total family income					
	Under $6,000	$6,000-$9,999	$10,000-$13,999	$14,000-$19,999	$20,000 or more	Average
			(Per cent)			
Personally owned home	52.6	46.4	59.8	70.3	75.9	65.5
Savings	39.8	49.2	61.6	60.1	73.0	61.9
Company employee pension	19.2	36.9	52.3	58.0	61.6	51.2
Investment income	10.9	20.2	29.6	36.6	54.7	38.9
RRSPs	3.9	4.3	19.7	26.9	41.9	26.1
Insurance company annuities	10.9	7.5	16.9	20.5	29.9	21.3
Post-retirement employment	2.6	6.9	7.0	16.5	22.5	13.6
Inheritance	2.6	5.4	6.4	6.6	18.1	10.5

Source Royal Commission on the Status of Pensions in Ontario, Consumer Survey, Questions 2a, b, c, d.

The single most frequently mentioned source of retirement income was a personally owned home (average 65.5 per cent). A house as a source of income has many possibilities; for example, the retired may live rent-free, sell the home upon retirement, or rent part or all of their home to provide income. More than half the respondents expected to save money for retirement, and an additional 30.4 per cent stated that they expected income from investments. As has been shown elsewhere, expectations rise as annual incomes rise, and most expectations

of those in the 35 to 54 age group were marginally higher than those of younger or older people (Table 35).

Table 35
Sources of Expected Retirement Income by Age Group

	Age group			
	18-34	35-54	55 and over	Average
			(Per cent)	
Personally owned home	58.7	73.3	64.1	65.5
Savings	62.5	62.4	61.0	61.9
Company employee pension	50.3	54.8	48.4	51.2
Investment income	39.1	42.9	34.4	38.9
RRSP	27.1	33.1	18.3	26.1
Insurance company annuities	27.4	25.0	11.5	21.3
Post-retirement employment	19.5	15.4	6.0	13.6
Inheritance	15.7	12.0	3.8	10.5

Source Royal Commission on the Status of Pensions in Ontario, Consumer Survey. Questions 2a, b, c, d.

When expectations were broken down by employment status, very few differences were found between self-employed and employees with the exception of anticipated company pensions. The high incidence of self-employed expecting incomes from voluntary saving reflects the lack of planned pension incomes for this group. But again, all segments show a majority relying on a personally owned home.

Later on in the questionnaire, respondents were asked how they were actually saving for retirement income (Table 36). As expected, a personally owned home was very high on the list of ways to save except among those currently unemployed.

When expectations and actual behaviour in respect of the same five sources of retirement income are compared, some differences emerge (Table 37). In some instances, expectations exceed reality. For example, savings expectations among the unemployed were high (70.1 per cent), but only 57.3 per cent were actually saving. On the other hand, more self-employed were saving for a home than were expecting income from this source. Basically, the retired appeared to have been somewhat disappointed in their expectations, as were those not now in the labour force, except for their own home and savings. Those who were not now saving for retirement reported generally that they just did not have income available to put aside because there were other demands on their money.

Table 36
Ways in Which Respondents Are Now Saving for Retirement(a)

	Personally owned home	Savings	Investments	RRSPs	Insurance company annuities
			(Per cent)		
In the labour force					
Self-employed	75.4	61.5	46.7	38.5	27.0
Employee	63.0	60.8	36.2	27.7	20.9
Unemployed	34.4	57.3	22.9	22.9	20.1
Not in the labour force					
Retired	61.3	61.3	30.2	13.3	7.9
Others	56.9	46.9	26.7	13.6	11.2
Average	59.4	57.4	32.2	21.3	16.1

a Company employee pension is not included because it was not listed as a way of saving in this question and was explored in detail elsewhere.

Source Royal Commission on the Status of Pensions in Ontario, Consumer Survey. Question 2e to j.

Table 37
Comparison of Expected and Saved-for Retirement Income

	In the labour force			Not in the labour force	
	Self-employed	Employee	Unemployed	Retired	Others
	(Per cent)			(Per cent)	
Personally owned house					
Expect	70.0	68.0	58.6	55.8	69.8
Saving for	75.4	63.0	34.4	61.3	56.9
Savings					
Expect	63.3	62.5	70.1	58.0	64.0
Saving for	61.5	60.8	57.3	61.3	49.9
Company employee pension					
Expect	16.4	59.6	17.2	51.9	39.5
Investments					
Expect	53.3	42.3	32.8	35.0	36.1
Saving for	46.7	36.2	22.9	30.2	26.7
RRSPs					
Expect	38.3	32.4	31.5	10.9	24.0
Saving for	38.5	27.7	22.9	13.3	13.6
Insurance company annuities					
Expect	23.3	25.3	28.7	10.9	19.0
Saving for	27.0	20.9	20.1	7.9	11.2

Source Royal Commission on the Status of Pensions in Ontario, Consumer Survey. Questions 2e to j.

Personally Owned House

It is clear that a personally owned home is the most expected source of retirement income and the item most saved for before retirement. While most people do not actually derive income from a house, none the less they consider it to be the cornerstone of income security in retirement.

Most heads of household age 65 and over in Ontario in 1976 lived in owned dwellings (64.2 per cent). Of these, 7.3 per cent reported a mortgage on the property compared to 28.3 per cent of the total population.

In the Royal Commission's consumer survey, 87.9 per cent of the retired stated that they owned or were purchasing their home, and 10.3 per cent lived in rented accommodation. Of all respondents, 81.4 per cent stated that they owned or were purchasing their home and 16.3 per cent lived in rented accommodation.

Many briefs to the Commission referred to the importance of living in one's home. Many advocated subsidies or reduced taxes to enable pensioners to continue living at home. It should also be kept in mind that relatively few people age 65 and over are institutionalized.

One proposal aimed at making a dwelling income-producing is that of a "reverse mortgage." Under a reverse mortgage, the lender would pay the borrower a monthly sum based on a percentage of the value of the equity in the property. Repayment would be made from estate.(38)

Insurance Company Annuities

Insurance companies sell both group annuity and individual annuity contracts. Most group annuities are registered pension plans, and some individual annuities are in registered plans as "Individual Pension Policy Trusts." Other annuity contracts are not included in any of the categories mentioned above. They may be bought by individuals from personal savings, from the proceeds of insurance policies or from severance awards when they leave employment.

Total annuity payments from insurance companies to Canadians in 1977 amounted to $759 million. The premium income for annuities was $1,919 million, of which 46 per cent was individual and 54 per cent group. According to Income Tax statistics, $319 million of annuity incomes was shown on tax returns for the 1976 taxation year, apart from pension or superannuation income.

Other Savings

People save for retirement in many ways other than through formal employment pension plans and other registered savings arrangments. People look to their homes for security and have personal savings as well. Many people rely mainly on their own business. Only 17.9 per cent of respondents in the consumer survey were not saving or had not saved for retirement. The reason for not saving was predominately lack of money (62.5 per cent) although 22.9 per cent said they never had thought about retirement. The latter accounted for 37 per cent of the 18-34 age group, but only 8 per cent of the 35-54 age group and 6.4 per cent of those 55 and over.

Attitudes About Income

As for levels of income, respondents were asked how much money ought to be provided to persons 65 and over. The question was as follows:

"17(a) By today's standards, what do you feel is the minimum total monthly income that would be adequate for....
One person over 65, living alone _____
Two people over 65, living together _____"

The range of figures suggested by all respondents according to several factors is interesting. In suggesting amounts of $536 per month for a single person and $798 per month for a couple, the retired segment is somewhere in the middle of the spectrum. Since they are the ones living in the real world of retirement the figures cited may well approximate their current needs. Other levels are compared with those suggested by the retired in Table 38.

It is noteworthy that in the responses shown in Table 38 the estimate for a couple at no time is double that for a single person. Living alone obviously is seen as relatively more expensive.

A further question in the survey asked if government assistance to persons over 65 should increase. While 11.8 per cent of the retired respondents did not know or did not reply, 60.1 per cent said it should increase, but a surprising 28.1 per cent felt it should not. When asked about the adequacy of the current monthly CPP maximum retirement pension ($194.44 at the time of the survey), 43.8 per cent of the retired felt the amount was too low, but 41.8 per cent felt it was about right and 1.8 per cent felt it was too high; 12.6 per cent did not answer or did not know.

Respondents were told the total amount of current income guarantee levels from OAS/ GIS/GAINS and asked if they should be increased: responses by work-force status were as follows:

	Retired	In labour force	Not in labour force	Unemployed
		(Per cent)		
Yes	60.1	66.6	59.1	74.2
No	28.1	27.5	29.1	22.9
Don't know/ did not state	11.8	5.9	11.8	2.9

However, when later a general question was asked whether "government assistance" to persons over 65 should be increased, the following results emerged:

	Retired	In labour force	Not in labour force	Unemployed
		(Per cent)		
Yes	72.5	79.3	71.5	82.8
No	14.2	13.9	16.9	17.2
Don't know/ did not state	13.3	6.8	11.6	-

These latter responses are understandable in the light of a follow-up question which asked whether such assistance should be in terms of money, subsidized services or both. While money was obviously the more important there is sizeable support for the idea of services:

	Retired	In labour force	Not in labour force	Unemployed
			(Per cent)	
Money	63.0	56.2	62.5	61.9
Services	34.5	39.5	34.7	31.2
Both	.8	3.6	2.8	6.9
Don't know/ did not state	1.7	.7	–	–

Table 38
Average Monthly Income Considered Adequate for One and Two Persons Over 65, by Segment Responding

	One person		Two persons	
	Per cent responding	Adequate amount	Per cent responding	Adequate amount
		(Dollars)		(Dollars)
Retired	82.8	536	83.4	798
Total	89.2	517	89.5	786
City size				
500,000 and over	84.4	549	84.7	820
100,000-499,999	92.7	500	93.3	768
10,000- 99,999	92.8	526	92.8	808
Under 10,000	90.4	487	90.8	746
Age				
18-34	93.5	481	93.5	740
35-54	87.9	547	88.5	824
55 and over	86.3	523	86.7	793
Sex				
Male	91.1	541	91.3	824
Female	87.3	490	87.8	744
Marital status				
Never married	90.5	480	89.8	733
Now married	89.0	527	89.7	798
Widowed, divorced, separated	88.5	505	88.5	778
Income				
Under $6,000	94.3	450	93.0	745
6,000- 9,999	92.5	498	92.5	731
10,000-13,999	95.3	502	95.3	759
14,000-19,999	91.9	550	92.4	809
20,000 and over	92.8	544	93.1	819

Source Royal Commission on the Status of Pensions in Ontario, Consumer Survey

There is obviously some ambivalence in attitudes to pensions from public sources and their role in the income of the retired. Since the present generation of retired persons is so dependent on pensions from government, their expectations of levels of income may understandably be heightened. We know from the analysis of the retired respondents to the Consumer Survey that 48.1 per cent do not have an employment pension and 86.7 per cent had not invested in an RRSP.

The absence of employment pension sources and the consequent heavy reliance on publicly-supported retirement income plans is a major distinguishing feature of today's retired population.

Expenditures

Patterns of family expenditure may be expected to vary with age, partly as a consequence of changing responsibilities, health, interests, and activities. Most important in the present context, however, is the effect of changes in income on the type as well as the total amount of spending by the elderly. Since the incomes of those aged 65 and over are generally reduced by retirement, declining health, or widowhood, a higher proportion is spent on the necessities of life and relatively less on other goods and services. For low income families of all ages, differences in the budget pattern are most obvious, as will be seen from the last column in Table 39. This table includes comparative data for unattached individuals aged 65 and over and for married-couple families in which the head is 65 or over. Food, shelter, and clothing are the items chosen for this comparison; the same three items in family budgets are used by Statistics Canada in determining its "low income cut-off."

Table 39
Major Expenditure Patterns, Selected Family Categories,(a) 1974

	All families	Unattached individuals		Married couples head 65+	Low income(b)
		All	65+		
	(Per cent of income)				
Food	17.2	17.0	22.9	21.6	30.9
Shelter	15.0	19.6	29.8	18.8	23.4
Sub-total	32.2	36.6	52.7	40.4	54.3
Clothing	7.1	5.7	5.5	6.0	7.2
Total	39.3	42.3	58.2	46.4	61.5

a "Family" includes one financially independent individual living alone.

b "Low income" defined in Statistics Canada, Income Distributions by Size in Canada, 1974, Cat. 13-207, pp. 17-18.

Source Statistics Canada, Urban Family Expenditure, 1974, Cat. 62-544, Occasional, Tables 2, 3, 4, and 36.

Elderly unattached individuals were found to spend 52.7 per cent of their budgets for food and shelter and 5.5 per cent for clothing - a total of 58.2 per cent, only slightly lower than the percentage for the group defined as low income (61.5 per cent). For all unattached individuals the allocation was 36.6 per cent for food and shelter and 5.7 per cent for clothing - a total of 42.3 per cent.

Families consisting of a married couple, one aged 65 or over, with or without other family members, spent 40.4 per cent on food and shelter and 6 per cent for clothing for a total of 46.4 per cent - higher than for all family units (39.3 per cent) or for all unattached individuals (42.3 per cent).

Shelter costs, it will be seen, are a disproportionately large item in the budget of unattached individuals 65 and over; 29.8 per cent compared with 19.6 per cent for all unattached individuals, 18.8 per cent for elderly married couples, and 23.4 per cent for all low income families. With food accounting for only moderately more than the share spent by elderly couples, single persons living alone were most clearly disadvantaged by not sharing accommodation and - to some extent at least - by a generally lower incidence of home ownership.

Not surprisingly, the over-65 group has a distinctly higher tendency to use current income for current consumption. Figures from the same 1974 survey, shown in Table 37 tell us that, while the overall average spent on current consumption was 74.5 per cent, the percentage for unattached individuals 65 and over was 86.7; and for elderly couples it was 80.3. While most of the difference is accounted for by the lower personal taxes paid by older persons, it is significant that the proportion of income going to "security" (insurance, savings) is also much lower for the 65 and over group; compared with an overall average of 5 per cent, the security allocation was only 2.9 per cent for elderly married couples and, for unattached individuals 65 and over, it was .5, or one-tenth of the figure for all family units. It is also of interest that the older groups reported higher than average shares of income going to "gifts and contributions."

Table 40
Non-Consumption Expenditures by Selected Family Categories, 1974

	All families	Unattached individuals 65 and over	Married couples: head 65+
		(Per cent of income)	
Current consumption	74.5	86.7	80.3
Personal taxes	18.4	7.5	12.8
Security	5.0	.5	2.9
Gifts and contributions	2.1	5.3	4.0
Total expenditures	100.0	100.0	100.0

Source Statistics Canada, Urban Family Expenditure, 1974, Cat. 62-544, Occasional, Tables 3 and 4.

Results of the family expenditure survey cited here, while applicable only to major urban centres, are not necessarily unrepresentative - especially as to comparisons of the older population and all families. First, food prices are not necessarily lower in smaller urban centres or rural areas, and the same applies to clothing. Second, the prevalence of significantly lower shelter costs in an area (rents and home ownership costs) usually accompanies lower average incomes. Consequently it is reasonable to regard the major budget differences revealed in Tables 39 and 40 as reflecting the spending patterns generally of older individuals and married couples in relation to those of all families.

In social security planning it is relevant that family expenditure in the over-65 group is characterized by a pronounced bias toward the basic necessities as opposed to more or less discretionary types of spending. It is also important to observe that unattached individuals 65 and over pay more than half again as much for shelter as do those in other categories. The extra cost represents 11.1 per cent of income when compared with shelter expenditure of elderly married couples (29.8 as opposed to 18.8).

Finally, it is of some economic significance that more of the income of the elderly is used for current consumption. That is, there is a comparatively high likelihood that an additional dollar of income to persons in the over-65 group will flow immediately into the demand stream for goods and services. This propensity to consume (more properly expressed as a ratio of consumption to disposable income), together with the observed pattern of spending by the elderly, may be taken into account by governments from time to time when framing stimulative fiscal measures.

NOTES

(1) Statistics Canada, The Labour Force, December 1976, Annual Averages, Cat. 71-001.

(2) S. Ciffin, J. Martin, C. Talbot, Retirement in Canada, May 1977, Volumes I and II. Staff Working Paper 7704. Policy Research and Long Range Planning (Welfare), Health and Welfare Canada, Ottawa.

(3) Southam Marketing Research Services, A Survey of Awareness and Attitudes of Ontario Residents Towards Retirement Programs and Particularly Pension Plans, December 1978, reproduced in Volume VIII.

(4) Statistics Canada, Census of Canada, 1976, Cat. 92-823, Vol. 2; Table 13, p. 13.

(5) Ibid.

(6) See for example D. Kubat and D. Thornton, A Statistical Profile of Canadian Society. (Toronto: McGraw Hill Ryerson), and Carl L. Erhardt and Joyce E. Berlin, Mortality and Morbidity in the United States, (Cambridge, Mass., Harvard University Press, 1974). Chapter 7: "Variations in Mortality, Morbidity, and Health Care by Marital Status," by Carl E. Ortmeyer, p. 163.

(7) Statistics Canada, Vital Statistics, 1975, Volume III, Deaths, Cat. 84-206. Table 2, p. 2.

(8) Figures supplied by Health Services and Promotion Branch, Department of National Health and Welfare, Ottawa.

(9) Statistics Canada, Vital Statistics, 1975, Volume III, Deaths, Table 20, p. 110ff.

(10) Health and Welfare Canada, Smoking Habits of Canadians, 1977, Promotion and Prevention Directorate, Health Services and Promotions Branch, Ottawa, November 1977, p. 11.

(11) Statistics Canada, Urban Family Food Expenditure, 1974, Cat. 62-542, Table 7, p. 14-15.

(12) Health and Welfare Canada, Smoking Habits of Canadians, 1977, Table 3.

(13) Speech by the Hon. William Davis to the Association of Municipal Police Governing Authorities, April 19, 1978.

(14) Estimates were provided to the Council by the Data Department and Evaluation Branch, Ontario Ministry of Health. Medical services utilization is for the fiscal year 1976-77; hospital utilization for 1976 from the 1976 estimates of the Ministry of Treasury, Economics and Inter-governmental Affairs.

(15) Ontario Council of Health, Health Care for the Aged, p. 27.

(16) "The Retirement Years," by Charles M. Godfrey, Canadian Family Physician. Appendix to Brief 285.

(17) For a commentary on the over-prescribing of drugs to the elderly see the Report of the Manitoba Task Force, as quoted in Brief 285 (Charles M. Godfrey).

(18) Ontario Council of Health, Health Care for the Aged, p. 9.

(19) Revenue Canada, Taxation Statistics, 1978 Edition, Table 4, p. 52ff.

(20) Morris M. Schnore, "Concerns and Expectations of the Old in Canada," Department of Psychology, University of Western Ontario. Presented to the National Symposium on Aging, Ottawa, October 25-27, 1978, p. 1.

(21) Statistics Canada, Labour Force Annual Averages, 1975-78, Cat. 71-529, pp. 99-102.

(22) Ibid., pp. 111-114.

(23) J.R.D. Bayne, M.D., "Health and Care Needs of an Aging Population," McMaster University, Hamilton. Presented to the National Symposium on Aging, Ottawa, October 25-27, 1978, p. 1.

(24) Morris M. Schnore, "Concerns and Expectations of the Old in Canada," p. 2.

(25) Louis Harris and Associates, Inc., 1979 Study of American Attitudes Toward Pensions and Retirement - A Nationwide Survey of Employees, Retirees and Business Leaders, Commissioned by Johnson and Higgins; p. 12.

(26) Health and Welfare Canada, Retirement in Canada, Volume I, p. 33.

(27) Louis Harris and Associates, 1979 Study, p. 15.

(28) Ibid., p. 17.

(29) Health and Welfare Canada, Retirement in Canada: Summary Report, March 1977, Research Report No. 3. Table 23, p. 32.

(30) Statistics Canada, Income Distributions by Size in Canada, 1976, Cat. 13-207, p. 24.

(31) Ibid. Although preliminary figures are available for 1977 and are shown in Chapter 6, 1976 levels are used in this discussion in order to be consistent with Census, Income Distribution and CPP earnings figures, all of which are for 1976.

(32) Ibid. Definitions used in Income Distribution are:
Family means the economic family, defined as "a group of individuals sharing a common dwelling unit and related by blood, marriage or adoption."
Unattached individual means "a person living by himself or rooming in a household where he is not related to other household members."
Individuals with income means "all persons aged 15 years and over who received any money income."
Head of family means "(i) in families consisting of married couples with or without children, the husband is considered the

head, (ii) in single-parent families with unmarried children, the parent is the head, (iii) in single-parent families with married children, the member who is mainly responsible for the maintenance of the family becomes the head, (iv) in families where relationships are other than husband-wife or parent-child, normally the eldest in the family is considered the head."(p. 17ff)

(33) Health and Welfare Canada, The Incomes of Elderly Canadians in 1975, Social Security Research Report No. 06, February 1979.

(34) Ibid., p. 2.

(35) Ibid., p. 9.

(36) Ibid., p. 11.

(37) Ibid., p. 31.

(38) Description adapted from John Grant, "An Analysis and Background of Reverse Mortgages," unpublished paper.

LIST OF TABLES

Chapter 5

Retirement Income in Ontario from Government Programs

THE NATURE OF SOCIAL SECURITY

"Social security" denotes a course taken by government to protect members of society as a whole against certain evils deemed to be such that only collective government action can deal with them effectively. Canada's social security for the elderly has three distinct elements:

- A universal feature provided by the Old Age Security pension (OAS) paid to all Canadians at age 65 who fulfill the residency requirements.

- A welfare feature provided by the Guaranteed Income Supplement (GIS) and other federal and provincial programs which provide a guaranteed annual income to the elderly who have little or no other income.

- A social insurance feature provided by the Canada Pension Plan where income in retirement is based on lifetime earnings and contributions are made by almost all employers and workers.

The first element, the OAS pension, may be found alone or in combination. With the welfare or income-tested programs it provides a minimum income for the needy elderly. With the social insurance program (CPP) it provides a basic retirement income for all workers. Both combinations are intended to achieve certain income goals: a minimum guarantee in the case of the OAS-welfare combination; and, for OAS-CPP (as originally designed) 40 per cent of pre-retirement earnings at the industrial average level.

Beyond the income levels provided by these measures, people must look to private arrangements including employment pension plans, Registered Retirement Savings Plans, personal savings, and (for some) continued employment.

How effectively the income goals are met will be discussed toward the end of this chapter and in the following chapter (Adequacy). First, it is necessary to examine the ways in which the three social security elements have been expressed in legislation, federal and provincial.

The Universal Feature

The Old Age Pension became a fixed amount without a means test in 1952 and has been a universal payment since that time. This universal approach, adopted after the Second World War in a time of economic growth, was a major departure in social security thinking. Canada is one of very few countries to adopt such an approach. Originally financed in part by an earmarked Old Age Security tax (discontinued in 1972) the pension came to be regarded as a benefit individuals had paid for and therefore would receive as a matter of right on attaining a specified age.

Over the years, the universal feature of Old Age Security has been questioned on two grounds: first, that it is wasteful to give the pension to those who have no need of state assistance; and second, that removal of this feature would make more money available to help those who do need support. The second viewpoint, reflected in recent positions taken by the Senate Committee on Poverty and the Canadian Council on Social Development, would seem to suggest the need for review of the entire system of social security for Canadians of all ages. Until that can be undertaken, the Commission feels that the universal OAS must be regarded as a necessary component of government programs for the elderly.

To remove the universal feature of OAS would involve more than simply combining it with GIS in an income-tested program. Using current amounts, that would mean an inclusive guarantee of $332.18 for a single person, and $613.88 for a married couple where both are eligible. Given the necessary technical revisions, this change would have no immediate effect on the incomes of those presently receiving a supplement; but it would remove from government pension rolls a significant number of the 44.7 per cent (1977-78) now entitled to OAS payments only. Of the latter, however, many would continue to qualify for all or a portion of the OAS equivalent, and the direct savings therefore would be somewhat less than the gross figures would suggest. The net saving to society as a whole would depend on the outcome of a multitude of consequential adjustments to programs which at present assume the availability of OAS pensions at age 65. While it is difficult to foresee the nature and scope of those adjustments - in employment pension plans as well as in

government programs - it is clear that they would be extensive and costly.

Elimination of the OAS as a universal pension would necessitate a major revision of the Canada Pension Plan, assuming its original objective: a basic retirement income of 40 per cent of earnings at the industrial average level. Based on the universal OAS component, that objective is to be achieved with a CPP benefit rate of 25 per cent. Without OAS the CPP rate would have to be 40 per cent. Furthermore, the increased benefit rate would have to be applied retrospectively (or the OAS phased out over a fairly lengthy period) in order to maintain some semblance of equity among groups of contributors and taxpayers. The additional cost, whether met by increased contributions or from general revenues, would offset a large part of the saving in OAS expenditures as such.

One option might be to replace OAS with a minimum pension under the Canada Pension Plan, as we find in the U.S. social security program ($122 per month at present). To accomplish such a change equitably, however, would mean changing the entire relationship between contributions and benefits in the CPP. In principle there would be little difference between a CPP minimum pension, available to everyone at a given age regardless of work-force participation, and the universal OAS pension. It could prove more costly, however, if the amount payable on retirement were linked to the YMPE rather than consumer prices.

The presence of a minimum pension in the U.S. social security legislation (OASDI) reflects a somewhat different constitutional basis for social legislation in the United States. That country has been able to achieve a high degree of integration of programs at the federal level, embracing not only pension measures but also provisions for unemployment insurance, health insurance, public assistance, and children's services. Contrasting sharply with that is Canada's decentralized approach, in which many comparable programs are either entirely within the competence of the provinces or at least variable as to content and administration under cost-sharing agreements. This compartmentalization offers a relatively high degree of flexibility: one component of the system may be improved without simultaneously changing others. At the same time it makes it unnecessary for one program, CPP in this case, to accommodate objectives that are more appropriate to other components. Thus, while OASDI may incorporate minimum pensions in order to satisfy certain requirements of social adequacy, it does not follow that the CPP should do so. If it were decided that the Old Age Security pension should no longer be universal, its welfare function - logically - would be taken up by a program or programs of income supplements.

Public acceptance of universality in Old Age Security should not be discounted. Adoption of OAS legislation and its implementation in 1952 represented a much-desired break with the tradition of public charity as symbolized by the earlier means-tested pension. Henceforth, Canadians

were to be entitled to a pension in old age simply as a recognition of their participation in the life of the nation. To reinforce the new view that the OAS pension was to be received as a matter of right, it was financed for some years by earmarked taxes on personal and corporate incomes and a portion of the federal sales tax. These developments continue to influence the attitudes of a great many people toward government pensions. To abandon OAS universality at this stage would be widely regarded as a serious breach of faith; and that public reaction would undermine the credibility of any associated program to reform the system of social security.

On the positive side, the universal OAS pension gives everyone an opportunity to participate in social security, regardless of income and regardless of whether or how long they may have been in the labour force. Apart from proof of age and residence at the time of an initial application, there is no recourse to elaborate formulas or records; nor is the pension affected by fluctuations in income. For those who may need assistance, now or later, their status as OAS pensioners provides ready access to income supplements; it also gives them access to a number of subsidies, exemptions, and privileges that are extended to the elderly by both public and private organizations.

Finally, it must be remembered that the OAS pension, unlike benefits based on need, is not only taxable as any other income but cannot be considered for the pension income deduction (currently $1,000). In other words the pension is partially recovered from those who enjoy better-than-average incomes.

In summary, the universal Old Age Security pension serves as the keystone of Canadian social security for the elderly; it could not be removed without first redesigning the entire structure. Apart from that, it represents to the general public an essential expression of concern for all the older members of society. For purposes of this study, therefore, the Commission has accepted the universal OAS component as a continuing feature of social security for the older population.

The Welfare Feature

As we have seen, the welfare components of social security have been designed as supplements to the OAS pension. All are made available on the basis of need as measured by family income, and access is provided primarily through individual enrolment in OAS on attainment of age 65. Two of the supplements are federal: the Guaranteed Income Supplement (GIS) and the Spouse's Allowance, the latter for spouses aged 60 to 65 of OAS pensioners. Additional benefits are available under six provincial programs including Ontario's Guaranteed Annual Income System (GAINS), with income guarantees that are somewhat higher than those established at the federal level. Other benefits related to need or variable according to income are provided under federal and provincial measures relating to income tax, housing, and health services.

No serious disagreement is apparent concerning the principle of government assistance to the needy. An underlying public consensus as to the need for a collective approach to economic security was evident before World War II, and has been expressed most clearly since then in the growth of programs designed specifically for the older population. This emphasis on assistance to the elderly has been noted by the Economic Council of Canada, which found that, by 1975, payments under OAS, GIS, and CPP/QPP accounted for 34.6 per cent of all social security transfers, compared to 26.1 per cent for unemployment insurance, 16.3 per cent for family and youth allowances, 14 per cent for the Canada Assistance Plan, and 9 per cent for other programs. A study prepared for the Council also demonstrated that the OAS, GIS, and CPP/QPP programs were progressive rather than regressive in their net effect on income distribution.(1)

Expenditures on income supplements for the elderly may be expected to decline gradually as the number of CPP recipients grows in relation to the total population 65 and over. At its inception in 1967, GIS was seen as a largely temporary expedient to assist people who had retired or would retire with little if any entitlement to CPP benefits, including those whose pensions would be only fractional on retirement during the ten-year transitional period, 1967 to 1975. Although still an important source of retirement income for persons in low-wage occupations or outside the regular labour force, supplements will be increasingly displaced by CPP income; and that tendency will be more pronounced if the future brings higher rates of employment and labour force participation (especially by women), expansion of work opportunities for older workers, and any significant extension of employment pension plans.

While considering the general role of income supplements, it should be noted that the provincial GAINS performs an important additional function by covering persons who cannot meet the residence requirements for OAS and GIS but have the necessary minimal residence in Ontario. Income guarantees under GAINS (January, 1980) are $371.06 for a single person and $722.12 for a couple.

The Social Insurance Feature

Both the Canada Pension Plan and unemployment insurance are applications of a social insurance strategy to selected areas within the general framework of social security. This approach borrows from the insurance industry certain methods and terminology, but adapts them according to the desired social objectives. In Canadian practice the principal social objective is income replacement in the event of specific occurrences that are beyond the individual's control: unemployment, including limited periods of illness and pregnancy; and, in the Canada Pension Plan, loss of earnings as a consequence of retirement, long-term disability, and death.

In some sense the term "social insurance" involves elements which are irreconcilable. The "social" aspect in the CPP design is found in some features of a "welfare" nature: the weighting of benefits in favour of the lower-paid worker, for example, and the relatively favourable treatment of surviving spouses who have dependent children or are over age 45. In a more general sense, disability, death, and survivor benefits are sometimes considered welfare features as distinguished from those expressly related to retirement income. The "social" aspect is also apparent in the structural design which makes participation mandatory for virtually all employed and self-employed workers. Voluntary participation is not permitted, nor are individuals allowed to "buy" more or less protection than the law stipulates. Also because of its social role the plan departs in various ways from a strict contribution/benefit relationship; and it employs a funding approach that is possible only in a government-operated program.

On the other hand in its "insurance" aspect the CPP is designed to be self-supporting; benefits are financed by contributions from those covered and their employers, without subsidization from general revenues. The insurance characteristic is also to be found in the variability of benefit amounts according to earnings and contributions, in the absence of a retirement test for pensions at age 65, and in the lack of any offsets for other income. To this extent it can be said that the plan is concerned with "individual" benefits rather than "social" benefits.

If the CPP is looked at alone one could argue that its "social" and "insurance" elements are at odds. However the Commission does not see the CPP emphasis on individual benefits as a disregard for social adequacy but rather that the CPP as social insurance is intended to play an important role in achieving an acceptable level of adequacy of retirement income. Under the CPP there is no explicit consideration of people's need for retirement income; but a basic need is assumed, and the OAS-CPP combination is designed to meet that need. Similarly, those who become totally disabled or who die and leave dependents are assumed to require at least a minimum of replacement income; and it is that basic protection which CPP provides, rather than any defined level of adequacy.

Social adequacy as an objective is not pursued by the Canada Pension Plan in isolation, but through a structure of social security within which the CPP performs a well-defined function. CPP benefits (and OAS pensions) are not expected to meet the income needs of their recipients in any precise manner; and indeed it is assumed that most will have income from employment pension plans, savings, and other private arrangements. For those whose income falls below a given level, however, support is to be provided through other government programs and is to be addressed to their particular income requirements.

Of the several social security components, then, the Canada Pension Plan is unique in the role of ensuring a degree of continuity between pre-retirement and post-retirement income. As was intended, it fills part of the gap that was not being bridged by employment pension plans and perhaps never would have been bridged satisfactorily; and it stands in place of alternative solutions, such as Ontario's proposed mandatory plan (1962-63), which would have created an extension of pension coverage under private rather than public auspices.

An understanding of the place of the CPP in social security may be more complete if the plan is viewed in relation to employment pension plans and other vehicles which utilize current earnings to make provision for retirement income. Those private arrangements are linked, through favourable tax treatment and other forms of encouragement, to the social security system as represented by OAS, CPP, and the supplemental programs. In effect, the CPP when combined with the universal OAS pension minimizes the need for transfer payments geared specifically to social adequacy. To put it another way, social insurance serves to reduce the welfare role of government.

The balance of this chapter describes in detail the individual programs constituting Canada's social security for the elderly, as well as other benefits and arrangements provided by government.

DESCRIPTION OF GOVERNMENT PROGRAMS

This section will focus on cash transfer programs provided by governments; tax credits, subsidies, and other benefits will be discussed in a later section. Throughout this chapter reference will be made to the different eligibility tests applied to the programs. The four most common are "means," "needs," "income," and "earnings." As applied in various programs these terms have the following meanings:

Means test - a measurement of assets, whether income-producing or otherwise, such as house, car, savings, stocks and bonds. Benefits are determined on the assumption that some assets could be liquidated to provide additional income. Such a test was applied to the original Old Age Pension and to early social assistance benefits. It has largely fallen into disuse because it was associated with invasion of privacy and subjective judgment by the authorities. Today it is felt that considerable stigma attaches to a means test.

Needs test - a measurement of deficiency of resources in relation to a standard drawn up by the funding authorities, for such items as lodging, food, clothing, fuel, and transportation. The test is used in provincial welfare programs, and is required under federal-provincial cost-sharing arrangements.

Income test - a measurement of cash flow, accounting for assets only through any income they produce. This test is used for the Guaranteed Income Supplement, Spouse's Allowance, and (by co-ordination) provincial supplements.

Earnings test - a measurement of income from employment or self-employment, and formerly applied to Canada Pension Plan benefits between ages 65 and 70. It functions as a "retirement test" to establish a person's work-force status. The inequity resulting from a reduction in benefits for persons earning small amounts from part-time work for example, as against no reduction for someone with investment income led to elimination of the earnings test from the CPP in 1975 and the QPP in 1977.

Old Age Security (OAS)

The cornerstone of retirement income in Canada is the universal Old Age Security payment made to persons aged 65 and over who meet certain residence requirements. Qualified individuals receive a monthly payment of $167.21 (January, 1979) including quarterly cost-of-living adjustments. Benefits are payable outside the country if a recipient had twenty years' residence in Canada after age 18; but only for six months in other cases.

OAS pensions are referred to as "universal" - that is, they do not take into account previous earnings, years spent in the work-force, tax status, or retirement benefits available from other sources. They constitute a recognition by society for the contribution made to Canada; although many persons now over 65 may feel the pension is theirs as a matter of right since they paid an earmarked OAS tax for a number of years.

Payments of OAS benefits are made on an individual basis; each partner of a married couple (if both are pensioners) receives a cheque for his or her individual entitlement. Cheques are mailed to arrive for the last two or three banking days in each month. Payment begins the month after the month in which the applicant turns 65.

History

From its introduction in 1927 through 1951, the Old Age Pension program was administered by the provinces, its cost shared equally with the Government of Canada. In 1931 the federal share was raised to 75 per cent. The original amount of $20 per month payable at age 70 continued unchanged until 1952 when the Old Age Security Act superseded it. A means test was applied to benefits under the Old Age Pension Act, and pensioners were permitted up to $125 annual income from other sources before benefits were reduced. Those with children in Canada who had sufficient means to support them could also be disqualified. With the introduction of the new act in 1952 the means test was eliminated and

its present universal nature established. Qualifying conditions were only age and residence.

Benefits have their purchasing power maintained by quarterly escalation in line with rises in the cost of living. As shown in Table 4, indexing in some form has been used since a pension index became operative in the Canada Pension Plan in January, 1968. From then until January, 1972, benefits were escalated annually with a maximum increase of 2 per cent. The ceiling was removed effective January 1972, and full Consumer Price Index increases were incorporated on an annual basis. From October, 1973, the indexing has been quarterly, with adjustments made in January, April, July, and October. Old Age Security, GIS, Spouse's Allowance, and Veterans' pensions are the only federal government programs providing quarterly adjustments.

From its inception until 1971 the program was financed by means of tax levies on sales, corporation income, and personal income, with additional amounts from general revenues as required. A separate Old Age Security Fund was maintained, and when the earmarked tax contributions were eliminated, an amount equal to what would have been raised was contributed to the fund. In 1975 the fund itself was abolished, and payment now comes from federal consolidated revenues.

Residence Requirements

Residence qualifications, until amended as of July 1, 1977, fell into three categories:

(a) residence in Canada for forty years after age 18;

(b) residence in Canada for ten years immediately prior to the approval of application for a pension;

(c) presence in Canada after age 18 for periods which totalled three times the absences in the ten-year period immediately prior to the approval of the application for a pension plus residence for one full year prior to pension payment.

At present any Canadian citizen or legal immigrant who has reached age 65 and who meets the residence requirements may apply. Temporary absences of less than one year, or absences for school or university, do not jeopardize residence; and absences of a special nature such as postings abroad with the armed forces, diplomatic corps, international organizations, or businesses do not interrupt presence in Canada for purposes of qualifying under the former option (c), provided the person returns to Canada within six months of the end of the relevant period of service.

Under the former rules, eligibility was on the basis of all or nothing. The July, 1977 amendments introduced the concept of a partial

pension, with benefits directly related to residence in order to recognize the proportionately greater contribution of persons who have lived longer in Canada. Beginning in 1977 and for a transition period of forty years two methods of qualifying on the basis of residence are in effect - the old rules, and the new system, in which each year of residence after age 18 counts for one-fortieth of the full OAS pension. With a minimum qualifying period of ten years in order to earn one-quarter pension, it will henceforth be possible to apply for anything from one-fourth to a whole pension at age 65. Under the new rules applicants may elect to wait beyond age 65 in order to qualify for larger pensions; but once benefits begin, the amount will not increase with further periods of residence. Once the forty-year transition period has passed, and all those who were age 18 or newly arrived immigrants at the time of the amendments have been allowed the maximum qualifying period, all applicants will be governed by the new rules. Later immigrants and persons under 18 in July of 1977 automatically come under the new rules.

Table 1
Old Age Security Statistics, 1978

1. Number of Recipients (June 1978), Ontario

Age	Male	Female	Total
65	22,839	22,554	45,393
66	19,701	19,919	39,620
67	17,674	18,604	36,278
68	16,202	16,863	33,065
69	14,648	15,960	30,608
70-74	48,704	59,276	107,980
75-79	21,939	34,279	56,218
80-84	12,232	21,502	33,734
85-89	6,070	10,735	16,805
90+	2,164	4,507	6,671
Total	182,173	224,199	406,372

2. Monthly benefit (January 1979)
   $167.21

3. Total Benefits Paid (Fiscal year ending March 31, 1978)
   Canada - $3.7 billion
   Ontario - $1.3 billion

4. Per cent of GNP (Fiscal year ending March 31, 1978)
   Canada - 1.7 per cent
   Ontario - .6 per cent (of GNP)

5. Per cent of Federal expenditures (Fiscal year ending March 31, 1978)
   Canada - 8.1 per cent
   Ontario - 2.9 per cent

Source Department of Finance and Department of National Health and Welfare.

With OAS pensions variable according to residence in Canada, reciprocal agreements eventually will provide for international portability: credits earned in Canada or elsewhere may be counted toward a pension

payable in either country. Certain international differences must first by reconciled. For example, some countries base their pensions on work-force participation, others on residence or citizenship; migrants would be penalized unless the countries in question developed a system of protecting earned pension credits. Two methods of arriving at pension benefits under international agreements are:

(a) totalizing - the combining of periods of residence or contributions in each of the contracting states for the purpose of determining eligibility in one or both of them;

(b) prorating - the calculation of the amount of benefits payable by each contracting state in proportion to the periods of residence or contributions in each.

At the time of the 1977 amendment it was estimated that some 500,000 persons now in Canada could be eligible for benefits as the result of reciprocal agreements. To date only Italy has signed an umbrella agreement; but interest has been expressed by other countries with substantial emigration to this country, including the United States, United Kingdom, Bermuda, Guyana, Jamaica, and Portugal.

Because of the minimum ten years' residence required under either set of rules, the new conditions will not apply until 1987 to pensions actually payable.

OAS Expenditures

Figures are not available to show the relation of old age pensions at the original $20 level to the Gross National Product. No doubt the stringent means test kept costs in check. It may be of interest, however, to compare figures for 1952-53, the first full year of the present program, with the latest figures, those for 1977-78. In spite of the growth in number of recipients, the addition of supplementary benefits, and the automatic quarterly escalation, growth in GNP has been such that the proportion is not much higher now than it was twenty-five years ago.

Table 2
Benefits from Total OAS Program and OAS Portion Only, as Proportion of Gross National Product, Canada, Selected Years, 1952-1978

	Total program(a)	OAS only
	(Per cent of GNP)	
1952-53	1.3	1.3
1972-73	2.4	1.7
1977-78	2.2	1.7

a Total program includes OAS only in 1952-53; OAS and GIS in 1972-73; OAS, GIS, and Spouse's Allowance in 1977-78.

Source Statistics Canada, Social Security National Programs, 1978, Cat. 86-201, Table 7, p. 277; Table 7, p. 277, and Statistics Canada Information Division.

Table 3
History of the Old Age Security Program

Effective date	OAS	GIS Maximum Single	GIS Maximum Married	OAS/GIS (each) Single	OAS/GIS (each) Married
		(Dollars)			
1927(a)	20.00	-	-	20.00	20.00
January 1952(b)	40.00	-	-	40.00	40.00
July 1957	46.00	-	-	46.00	56.00
November 1957	55.00	-	-	55.00	55.00
February 1962	65.00	-	-	65.00	65.00
October 1963	75.00	-	-	75.00	75.00
1965(c)	75.00	-	-	75.00	75.00
January 1967(d)	75.00	30.00	30.00	105.00	105.00
January 1968(e)	76.50	30.60	30.60	107.10	107.10
January 1969	78.00	31.20	31.20	109.20	109.20
January 1970	79.58	31.83	31.83	111.41	111.41
January 1971	80.00	33.61	33.61	113.61	113.61
April 1971(f)	80.00	55.00	47.50	135.00	127.50
May 1972 (retroactive to January)(g)	82.88	67.12	59.62	150.00	142.50
April 1973(h)	100.00	70.14	62.30	170.14	162.30
October 1973(i)	105.30	73.86	65.60	179.16	179.90
January 1974	108.14	75.85	67.37	183.99	175.51
January 1975(j)	120.06	84.21	74.79	204.27	194.85
January 1976	132.90	93.22	82.78	226.12	215.68
January 1977(k)	141.34	99.13	88.03	240.47	229.37
January 1978	153.44	107.62	95.56	261.06	249.00
January 1979(m)	167.21	137.28	114.15	304.49	281.36
January 1980	182.42	149.76	124.52	332.18	306.94

a Introduction of OAP at age 70, with means test.
b Means test removed with introduction of OAS at age 70.
c Age reduced to 65 one year at a time (1965-1970).
d GIS introduced.
e Benefits increased by Pension Index with annual maximum of 2 per cent.
f GIS married rate introduced.
g Full escalation for CPI introduced, annual.
h Basic OAS raised to $100.
i Escalation changed to quarterly basis.
j Spouse's Allowance introduced in October.
k New residence rules phased in July 1.
m GIS maximum raised $20 single and $10 each for a married couple.

Source Statistics Canada, Social Security National Programs, 1978; and Health and Welfare Canada.

Guaranteed Income Supplement (GIS)

The Guaranteed Income Supplement (GIS) is a monthly supplement, paid to Old Age Security recipients - that is, persons aged 65 and over. GIS amounts depend on individual or couple's income from sources other than OAS pensions and they are scaled according to marital status. The guaranteed levels are adjusted quarterly according to increases in the

Consumer Price Index. Residence requirements are the same as for OAS pensions.

Maximum GIS benefits payable in January, 1979 were $137.28 for a single person and $114.15 each in the case of married couple.

Application for GIS is made in April of each year, and the amount of supplementation is normally based on previous year's income; an estimate of current income may be used by first-time applicants or recipients whose income has changed substantially since the last application. Payments are made on an individual basis: for a married couple, each receives a cheque covering the personal OAS pension and one-half of the couple's total GIS amount. Persons living outside Canada may continue to receive GIS for a maximum of six months, but payments can be reinstated on their return.

GIS, like Old Age Security pensions and Spouses' Allowances (see following) is financed entirely from federal consolidated revenues.

The Income Test

The amount of supplement (the couple's amount if applicable) is reduced by $1 for each $2 of outside income - excluding for this purpose the OAS pension and certain other types of income. Reduction begins at $2 per month of other income; as a result, the maximum benefit is payable only when other income is less than $24 a year in the case of a single person, or $48 a year in the case of a married couple when both are OAS pensioners or one is receiving the Spouse's Allowance. If the spouse of a GIS recipient is receiving neither OAS nor a Spouse's Allowance, a reduction is made only if other income exceeds $47.99 plus the annual equivalent of the current OAS amount (i.e., $47.99 + [12 x $167.21] = $2,054.51).

"Income" for purposes of the GIS calculation is the same as defined in the Income Tax Act, minus certain specified types of payment. Since tax legislation itself provides for several exclusions (not to be confused with personal exemptions or deductions), it may be useful to summarize here the relevant items that are <u>not</u> taken into account in the income test:

a) <u>Income Tax Act definition (Sec. 81)</u> - excludes various war-related pensions and allowances, workmen's compensation, RCMP pensions, social assistance payments, and payments from certain employee profit sharing plans.

b) <u>Old Age Security Act (Sec. 11)</u> - excludes OAS pensions, GIS, Spouse's Allowance, provincial supplements (e.g., GAINS), CPP and QPP death benefits, family allowances, and federal home insulation grants.

Table 4
Guaranteed Income Supplement Statistics, 1978

1. Number of Recipients (June 1978), Ontario

Full Supplement:

Age	Male	Female	Total
65	1,711	2,125	3,836
66	2,053	2,285	4,338
67	2,031	2,309	4,340
68	1,944	2,440	4,384
69	1,799	2,422	4,221
70-74	7,393	13,313	20,706
75-79	5,573	14,286	19,859
80-84	4,493	12,723	17,216
85-89	2,445	7,935	10,380
90+	1,124	4,145	5,269
Total	30,566	63,983	94,549

Partial Supplement:

Age	Male	Female	Total
65	3,247	5,903	9,150
66	4,578	7,048	11,626
67	5,082	7,446	12,528
68	5,547	7,730	13,277
69	5,451	7,970	13,421
70-74	27,974	40,493	68,467
75-79	22,456	32,849	55,305
80-84	12,370	22,856	35,226
85-89	5,763	12,364	18,127
90+	2,257	5,825	8,082
Total	94,725	150,484	245,209
Grand Total	125,291	214,467	339,758

2. Maximum Monthly Benefit (January 1979)
$114.15 (each, couple)
$137.28 (single)

3. Total Benefits Paid (Fiscal year ending March 31, 1978)
Canada - $1.1 billion
Ontario - $ .316 billion

4. Per cent of GNP (Fiscal year ending March 31, 1978)
Canada - .5 per cent
Ontario - .15 per cent (of GNP)

5. Per cent of Federal Expenditures (Fiscal year ending March 31, 1978)
Canada - 2.4 per cent
Ontario - .7 per cent

Source Department of Finance and Department of National Health and Welfare.

For recipients with outside income GIS benefits are paid according to a table based on the prescribed reduction formula and structured according to the four categories: single, including widowed and divorced persons; married, both OAS pensioners; married, where the spouse is not an OAS pensioner; and married, where the spouse is eligible for the Spouse's Allowance.

Although expressed most frequently in monthly amounts, GIS and its income offsets are based on the concept of an annual income guarantee. Thus, the "guarantee level" used in Table 5 is applied, once a year, to determine the amount of GIS (monthly) which will be payable according to annual income - personal income in the case of a single recipient or a married person with a spouse not eligible for OAS or supplementation; and total income in other cases. It is the annual guarantee which is indexed quarterly, resulting in proportionate increases in all monthly supplement payments.

Sometimes referred to as a "tax-back," the reduction of benefits resulting from the income test - at the rate of 50 per cent of outside income - is intended to preserve an incentive to acquire income from other sources. That is, the pensioner will always be better off with some earnings or other income than on straight supplementation. By way of illustration, Table 5 shows, for each marital category: the maximum "other income" corresponding to the lowest amount of GIS and Spouse's Allowance payable in January, 1979; the resulting total monthly income; and, for comparison purposes, the applicable guarantee level.

Development of GIS

When the means test was abandoned in 1952 for purposes of the universal Old Age Security pension, it was recognized that some members of the older population had needs greater than the OAS level, or required support before age 70 when the OAS pension became payable. Initially therefore, a modified means test was incorporated in the Old Age Assistance program under which benefits were made available to persons between ages 65 and 70. Recipients if eligible, received the full flat-rate benefit (at the OAS level); others received nothing.

With implementation of the Canada Pension Plan in 1966, a new disparity began to emerge, between those who would have income from that source and those with only OAS pensions. Consequently, the Guaranteed Income Supplement was added to the Old Age Security program in January, 1967 - originally for persons born in 1910 or earlier, but later made applicable to anyone aged 65 or over who had little or no outside income. By guaranteeing a minimum annual income rather than a single benefit amount, the GIS would provide an income supplement for OAS recipients in proportion to need; and it offered a measure of equity to those who were too old to benefit from the Canada Pension Plan. At the same time the GIS program took an entirely new approach to the determination of need: instead of a means test for a flat-rate benefit, there would

be an accounting of income and a sliding scale of supplementation. GIS recipients therefore would not face a complete loss of entitlement if their income edged above some minimal level.

Table 5
Effect of GIS Income Test on Total Income where Minimum Supplement Payable, January, 1979

Marital status and annual income(a)	Monthly income (annual in brackets) GIS	OAS	Other income	Total income(b)	Guarantee level(b)
			(Dollars)		
Single					
($3,311.99)	.28	167.21	276.00	443.49	304.49
				(5,322)	(3,653.88)
Married, both pensioners					
($5,519.99)	.30	334.42	460.00	794.72	562.72
				(9,537)	(6,752.64)
Married, spouse not a pensioner					
($8,630.51)	.28	167.21	719.21	886.70	304.49
				(10,640)	(3,653.88)
Married, Spouse's Allowance					
($8,207.99)	.30(c)	167.21	684.00	851.51	562.72(c)
				(10,218)	(6,752.64)

a Combined income for previous year, excluding OAS, GIS, Spouse's Allowance. Monthly equivalents shown as "other income" for current period.

b Annual amounts assume no escalation in government benefits from current levels.

c Includes Spouse's Allowance.

Source Health and Welfare Canada, Tables of Rates in Effect January-March 1979, Old Age Security, Guaranteed Income Supplement, Spouse's Allowance.

In retrospect, the transitional aspect of GIS appears to have been overstated at the time of its introduction. That is, it was widely assumed that GIS expenditures would gradually diminish as the Canada Pension Plan matured over its ten-year transition to payment of full benefits in 1976. Had the income guarantees not been increased, it is true that relatively few people today would be receiving the GIS supplement. However, the original maximum payment of $30 per month could not be maintained in the face of the rapid growth in personal incomes after 1967. Substantial increases have had the effect of lengthening the transitional period for which the GIS was originally designed; although the program may still be described, accurately, as "transitional."

GIS supplements as such have risen to more than four times the original $30 per month. The annual OAS-GIS guarantees have been raised from $1,200 for a single person and $2,400 for a couple in January, 1967, to $3,654 and $6,753 in January, 1979. At the same time, however, the proportion of OAS recipients receiving maximum GIS benefits has been declining in all provinces; and only slightly over half of all OAS pensioners in Canada today are receiving either full or partial supplementation (Table 6).

Table 6
Proportion of OAS Recipients Receiving Full and Partial GIS, Canada and Ontario, 1971-77

	Canada		Ontario	
	Full	Partial	Full	Partial
	(Per cent)			
1971	27.5	22.5	19.1	22.9
1975	24.0	32.5	16.9	31.6
1977	21.5	33.8	14.3	32.3

Source Statistics Canada, Social Security National Programs, 1978, Cat. 86-201, Table 1, pp. 525, 527.

Relationships between single and married supplements and between GIS and OAS levels may be of interest. At the time it was introduced, GIS at the maximum was just under 40 per cent of the OAS pension. Combined with OAS it was the equivalent of the means-tested social assistance then available. Since then, separate increases in benefits under the two parts of the program have brought the GIS maximum up to 82.1 per cent of OAS (single) and 68.3 per cent (married) at January, 1979. Beginning in 1971 GIS levels have distinguished between the income requirements of a single person and each member of a married couple; at that time a "married" rate was established, producing a single-to-couple ratio of about 56 per cent. That ratio was raised to 60 per cent with increases effective in January, 1979 of $20 per account - that is, $20 for a single recipient and $10 each for a married couple. This benefit bias is reflected in the amounts of other income shown for single and married persons in Table 5.

Effect of New Residence Rules

For those who may qualify for only partial Old Age Security pensions in the future (under new residence qualifications described earlier in this chapter) the GIS calculation will be fundamentally altered. The maximum GIS amount will be payable if indicated by the income test, but the OAS amount will be reduced according to the new formula for residence of less than 40 years after age 18. In such cases the GIS maximum will be a maximum payment rather than a make-up to a guaranteed level of income. Expressed another way, the GIS benefits will still constitute an income guarantee for those entitled to the full OAS pen-

sion; but the OAS amount will be variable according to residence in Canada. If the new residence requirements were applied in January, 1979 (actually they will not affect pensions payable until 1987) a single person eligible for one-quarter of the OAS pension and with no other income would qualify for OAS and GIS as follows:

OAS: one quarter of $167.21	$ 41.80
GIS:	137.28
Total OAS and GIS:	$179.08

By comparison, a person with full residence requirements would be entitled to receive:

OAS: full pension	$167.21
GIS:	137.28
Total (guaranteed level)	$304.49

Spouse's Allowance (SA)

The Spouse's Allowance is a monthly supplement payable, depending on family income, to the spouse aged 60 to 64 of an Old Age Security pensioner. Residence qualifications are the same as for OAS. As in the case of OAS and GIS, this benefit is subject to quarterly escalation according to increases in the Consumer Price Index.

At its maximum the Spouse's Allowance is the equivalent of the current Old Age Security pension plus the maximum Guaranteed Income Supplement for a married person. As of January, 1979 these components were $167.21 and $114.15 respectively, for a total allowance of $281.36 monthly.

Application must be made annually, as for GIS. Also as with OAS and GIS, cheques are sent individually. Payments may be continued for up to six months during absence from Canada and can be reinstated on returning to the country.

Subject to the income test, a Spouse's Allowance may be paid until the recipient reaches age 65, at which time OAS becomes available and the couple may also apply for GIS in the regular manner. If the pensioner spouse dies, the Spouse's Allowance may be continued until the recipient reaches age 65, but terminates on remarriage. By arrangement between the governments of Canada and Ontario, the province contacts the surviving spouse when benefits are about to be terminated, to determine eligibility for assistance through provincial support programs and to maintain continuity of income.

As part of the Old Age Security program, Spouse's Allowances are paid from federal consolidated revenues.

Table 7
Spouse's Allowance, 1978 Statistics

1. Number of Recipients (June 1978), Ontario

Age	Male	Female	Total
Full Allowance:			
60	25	131	156
61	43	176	219
62	34	214	258
63	43	264	307
64	63	229	292
Total	208	1,014	1,222
Partial Allowance:			
Age	Male	Female	Total
60	77	1,708	1,785
61	133	2,429	2,562
62	209	3,190	3,399
63	278	3,916	4,194
64	340	3,914	4,254
Total	1,037	15,157	16,194
Grand total			17,416

2. Maximum Monthly Benefit (January 1979)
   $281.36

3. Total Benefits Paid (Fiscal year ending March 31, 1978)
   Canada - $115.0 million
   Ontario - $ 23.7 million

4. Per cent of GNP (Fiscal year ending March 31, 1978)
   Canada - .05 per cent
   Ontario - .01 per cent (of GNP)

5. Per cent of Federal Expenditures (Fiscal year ending March 31, 1978)
   Canada - .25 per cent
   Ontario - .05 per cent

Source Department of Finance and Department of National Health and Welfare.

Income Test

For purposes of the Spouse's Allowance, "other income" is defined in the same way as for the Guaranteed Income Supplement except that GIS benefits are also specifically excluded. Reduction of benefit for outside income is in two stages: first the OAS equivalent is reduced by $3 for every $4 of outside income of the couple (a 75 per cent "tax-back"); then the GIS equivalent and the pensioner's GIS are reduced by $1 for every $4 of additional outside income (a combined "tax-back" of 50 per cent). The pensioner's OAS, however, is not affected by the operation

of the income test. Table 8 shows the monthly amounts payable to an OAS pensioner with spouse aged 60 to 64 with various levels of annual income, illustrating the sequence of reductions - first in the Spouse's Allowance, then in both spouses' supplements.

Table 8
OAS, GIS, and Spouse's Allowance: Amounts Payable by Selected Levels of Outside Annual Income, January 1979 - Married Couple

Couple's combined yearly income	Pensioner		
	OAS	GIS	Spouse(SA)
	(Monthly)		(Monthly)
Up to $47.99(a)	$167.21	$114.15	$281.36
$ 48 - $ 95.99(b)	167.21	114.15	278.36
2,688 - 2,735.99(c)	167.21	114.15	114.15
2,736 - 2,783.99(d)	167.21	113.15	113.15
8,160 - 8,207.99(e)	167.21	.15	.15
8,208 and over	167.21	-	-

a Outside income less than $4 monthly; maximum supplements payable.
b Outside income $4 but less than $8 monthly - OAS portion of SA reduced by $3.
c OAS portion of SA is fully offset by outside income on 3/4 basis - remaining SA is equivalent of GIS only.
d Level at which additional $4 monthly outside income results in $1 reduction in pensioner's GIS and spouse's GIS equivalent.
e Level beyond which GIS and SA are fully offset by outside income on 1/4 basis.

Source Health and Welfare Canada, Old Age Security, Guaranteed Income Supplement, Spouse's Allowance, Tables of Rates in Effect, January-March, 1979.

Development

The Spouse's Allowance was introduced as an amendment to the Old Age Security Act in October, 1975. It was designed to meet the special needs of elderly married couples living on only one pension - that is, where one spouse receiving OAS and GIS is the principal support of a spouse aged 60 and under 65 and therefore not eligible for an OAS pension. The GIS income test was extended, with modifications, to the new program.

As originally enacted, the allowance terminated with the month of the OAS pensioner's death. Provision was made in 1978 for continuation of payments for six months after the older partner's death without re-application. That period was extended, effective November 1979, to age 65, subject to an annual income test and terminating on remarriage.

The new OAS residence qualifications will affect Spouse's Allowances payable in 1987 and later. A spouse will require at least ten years' residence after age 18 to qualify for a partial allowance. Having qualified once however, the spouse may acquire an increased OAS equivalent in subsequent years through additional residence. (That is not the case with the OAS pension as such, which is applied for only once and not annually.) When a couple has qualified on the basis of income, the OAS component of the Spouse's Allowance will be based on the residence of the younger spouse. It will be possible, therefore, for the OAS equivalent paid to the younger spouse to be greater or less than the OAS pension of the older partner. The GIS amount for the pensioner, and the equivalent for the spouse will be the same as though a full OAS pension were payable.

Guaranteed Annual Income System (GAINS)

The Ontario Guaranteed Annual Income System provides a monthly supplement to low-income persons aged 65 and over who meet certain conditions of residence in the province. Unlike the federal pensions and supplements, GAINS benefits are not subject to automatic escalation; instead, the provincial government raises the guarantee levels from time to time to reflect increases in the federal GIS levels.

The maximum GAINS benefit is simply the difference between the provincial and federal guarantees according to marital status. As of January 1979 the monthly amounts were $38.88 for a single person and $52.01 for each member of a married unit. For those eligible for GAINS but not for OAS-GIS the applicable maximum was the guaranteed level: $343.37 single ($4,120 annually) and $666.74 married ($8,000 annually).

GAINS does not require a separate application in the case of OAS-GIS recipients, since its administration is co-ordinated with that of the federal program. Cheques are sent on an individual basis. Payment may be made outside Ontario for a maximum of six months, but benefits can be reinstated on returning to Ontario.

Benefits are paid out of provincial consolidated revenues.

Residence Rules

Basic residence requirements are the same as for the Old Age Security pension. Those not eligible for OAS may qualify for GAINS in one of three ways:

- residence in Canada for five consecutive years immediately prior to qualification, with the last full year in Ontario;
- residence in Canada for a total of twenty years since age 18, with the last full year prior to qualification in Ontario; or
- residence in Ontario for a total of twenty years since age 18.

Thus, anyone qualifying for GAINS but not for the federal pension or supplement may still receive a benefit up to the full GAINS guarantee level; that is, the equivalent of OAS, GIS, and the GAINS make-up amount.

New OAS residence rules will affect GAINS in the same way as GIS. For those entitled to partial OAS pensions (in 1987 and later) there will be a maximum amount payable under GAINS rather than a make-up to a specific guaranteed income level.

Income Test

Outside income constitutes a full offset against GAINS benefits - that is, benefits are reduced by $1 for every $1 of "other income" as determined for GIS purposes. GAINS, unlike the federal supplement program, is designed to maintain income at a guaranteed level but not above it. With its 100 per cent "tax-back" GAINS may be said to remove the incentive to have outside income. That is true, however, only with the narrow band of income between the GIS and GAINS guarantees. Beyond the GAINS limit there is a considerable range of income within which the GIS is available.

Development

Inaugurated in July, 1974, the GAINS-A program (as it is called to distinguish it from GAINS-D, for the blind and disabled) was designed to supplement elderly persons' incomes up to a level considered appropriate to Ontario conditions - that is, higher than the GIS level. Guaranteed levels under GAINS originally produced maximum monthly allowances of $24.49 for a single person and $33.36 for each member of a married couple. With periodic increases to accommodate higher GIS levels, the monthly GAINS guarantee in January, 1979 had become $343.37 (single) and $333.37 (each, married) - consisting of a direct GAINS payment of $38.88 and $52.01, respectively, and the applicable OAS and GIS benefits.

As originally constituted, GAINS was so structured that the guarantee for a married couple was exactly double that for a single person. This relationship was the consequence of an approach which, unlike that of the federal GIS program, aimed at establishing an individual guarantee regardless of marital status. GAINS benefit amounts calculated from the guaranteed income levels therefore were (and are) greater for each member of a married unit - both over 65 - than for a single person. That difference was reduced, however, in January, 1979. At that time the monthly GIS benefits were raised by $20 per account (single person or couple), thereby awarding the single recipient a relatively higher increase in the supplement. Ontario responded by increasing the GAINS guarantees by the same amounts, so that the single GAINS recipient re-

ceived the full relative advantage of the GIS change, and the married couple's income guarantee was no longer twice the single amount.

Table 9
Ontario GAINS, 1978 Statistics

1. Number of Recipients (December 1978), Ontario

Single; married with spouse ineligible; married with spouse receiving Spouse's Allowance	165,472
Married, both receiving GAINS	78,018

2. Maximum Monthly Amount Payable (January 1979)(a)
   $38.88 single
   $52.01 married (each)

3. Total Benefits Paid (Fiscal year ending March 31, 1978)
   $108.3 million

4. Per cent of GPP for Ontario (Fiscal year ending March 31, 1978)
   .12 per cent

5. Per cent of Provincial Expenditures (Fiscal year ending March 31, 1978)
   .8 per cent

a OAS-GIS recipients. Persons qualifying for GAINS alone could also receive equivalent of OAS and GIS, for a total of $343.37 (single) or $333.37 (each, married).

Source Ontario Ministry of Treasury and Economics; Ministry of Revenue.

Canada Pension Plan (CPP)

Canada Pension Plan benefits are earnings-related, are payable as monthly retirement pensions at age 65, and are based on required contributions of employees, employers, and the self-employed. Benefits are also provided for disabled contributors, surviving spouses, and dependent children; and a lump-sum benefit is payable on the death of a contributor. All monthly benefits are adjusted annually according to increases in the Consumer Price Index.

Pension credits under the plan are fully portable throughout the individual's working life, and are updated to reflect increases in general wage and salary levels.

A CPP contributor retiring in 1979 could receive a pension of up to $218.06 a month, depending on average earnings. A disability pensioner

could receive a maximum of $216.06, and a surviving widow or widower up to $134.28. The dependent child of a disabled or deceased contributor was entitled to a flat-rate monthly benefit of $52.51. The maximum death benefit in 1979 was a one-time payment of $1,170.

While any province may elect to establish its own earnings-related pension plan, only Quebec has done so. Terms of the Canada and Quebec plans are similar, however, and full portability between them is maintained. Benefits under both plans are payable anywhere in the world.

A more complete discussion of the CPP will be found in the Canada Pension Plan volume. For purposes of this chapter it will be sufficient to outline the main provisions of the plan, particularly those relating to coverage, portability, and the level of both retirement and survivor benefits.

Coverage is virtually universal for members of the work-force between ages 18 and 65, and extends to those over 65 but under 70 who defer their retirement. Generally, all employees, employers, and self-employed persons are required to make regular contributions on all eligible earnings - through payroll deductions where possible, otherwise through the income tax mechanism.

Eligible earnings are defined as all income from employment or self-employment above a specified minimum and up to a specified maximum. For 1979 the basic exemption (YBE) was $1,100 and the earnings maximum (YMPE) $11,700, so that a person's eligible earnings could be as high as $10,600. Contribution rates (unchanged since the CPP was instituted) are 1.8 per cent for employees and an equal amount from their employers, and 3.6 per cent for the self-employed. Thus, for individuals with earnings at or above the YMPE in 1979, contributions on an annual basis amounted to $190.80, or $381.60 if self-employed.

Portability is ensured through the central recording of all contributions in individual accounts. In effect, a single contribution is sufficient to entitle a person to an eventual retirement benefit. Vesting is immediate since no minimum period of service or continuity of employment in a particular location or occupation is required. Portability is further enhanced through the operation of an updating formula at the time benefits are calculated, so that pension credits once earned retain their value in relation to the rising levels of wages and salaries.

Retirement pensions are equal to 25 per cent of pensionable earnings (all earnings up to the YMPE, disregarding the basic exemption) averaged over the number of months the individual could have contributed, that is, from January 1966 or the person's 18th birthday if

later. Before the 25 per cent is applied, however, both earnings and contributory months are subject to adjustment - first, to restate the individuals's earnings in terms of current wage levels, and second, to eliminate from averaging certain months of low earnings.

Pensionable earnings for each month of the person's contributions are updated by means of a ratio of the average YMPE for the latest three years (including the year the pension is to commence) to the YMPE in effect at the time of the contributions. Thus, for example, a person whose earnings had been consistently at 75 per cent of the YMPE could expect a pension equal to 75 per cent of the maximum benefit in the year of retirement. The YMPE, it should be noted, is intended to represent an average of industrial earnings. At present it is somewhat lower, and for that reason is increased by 12-1/2 per cent annually; eventually it will be escalated according to increases in average wages and salaries as measured by Statistics Canada (the "Industrial Composite").

Contributory months may be adjusted in three ways. First, the person's contributory period is automatically reduced by any months for which a CPP disability pension was payable. Then contribution months before age 65 may be dropped out according to the number of contribution months after that age. Finally, the remaining months may be reduced by 15 per cent, provided that the balance used in averaging must be at least 120 months. This last "dropout" allowance, which may be as much as seven years, recognizes as a normal characteristic of careers various breaks in work-force activity associated with education, retraining, illnesses, unemployment, and child-bearing. (A specific allowance for years of child-rearing has been enacted but not yet proclaimed, as discussed later in this report.)

Transitional aspects of the CPP during its first ten years of operation affected the retirement rights and benefit amounts of many members of the present over-65 population. First, the eligibility age for retirement originally was 68, reducing to age 65 by 1970. More important to the present discussion, however, is the fact that retirement pensions commencing before 1976 were effectively reduced in all cases. Because they were averaged over a minimum of 120 months, no one could receive full credit for pensionable earnings until contributions had been made for at least 120 months; that point could be reached at the earliest by someone who had contributed regularly from January 1966 through December 1975. Those who chose to take a retirement pension during this transition period (or who reached age 70 and had no choice) received fractional pensions: one-tenth of the full amount if one year's contributions had been made, five-tenths after five years, and so on. No such reduction, however, was applicable to disability, survivor, or dependent children's benefits, although these benefits required contributions for a minimum of from three to five years, and so were not payable in the

early years of the plan. The phasing-in of various benefits, especially the retirement pension, was complete by January of 1976; at that time the plan was said to have "matured."

Surviving spouses' pensions are pertinent to a consideration of elderly person's incomes, since many spouses in the present over-65 population, especially women, will have little or no CPP entitlement in their own right. Eligibility for a surviving spouse's pension depends on contributions for ten years, or for one-third of the years in which contributions could have been made, subject to a minimum of three years. The benefit for a survivor between ages 45 and 65 is a flat-rate amount ($52.51 in 1979) plus 37.5 per cent of the amount of retirement pension the contributor would have received if age 65 had been attained. The same amount applies while a survivor under age 45 has dependent children or is disabled; otherwise there is a reduction of 1/120 for each month the survivor was under 45 at the time of the contributor's death. No benefit, except for the lump-sum death benefit which applies in any case, is payable if the surviving spouse is under age 35 and is neither disabled nor has dependent children; but a full benefit may be payable in the event of subsequent disability. Each child, while a dependent, is entitled to a monthly benefit equal to the flat-rate portion of other ancillary benefits: $52.51 in 1979. The maximum monthly pension for a surviving spouse under 65 was $134.28 in 1979 (not counting children's benefits).

Survivors aged 65 or over receive a somewhat lower amount, normally 60 per cent of the deceased person's retirement pension. If the survivor has a CPP pension in his or her own right, however, a combined pension may be payable up to a total equal to the applicable maximum retirement pension, $218.06 in 1979. Assuming no personal retirement pension, the maximum payable in 1979 to a surviving spouse aged 65 and over was $130.84.

Division of pension credits or "credit-splitting" is a relatively new feature of the CPP. On termination of a marriage in 1978 and later, either spouse may apply within three years for an equal division of CPP credits earned by both persons during the period of the marriage.(2) The process includes disclosure to both parties of "pensionable earnings" credited to them before and after the division, and a thirty-day period during which the applicant may withdraw if he or she wishes to do so. Where such a division is made, one spouse will usually have gained a measure of CPP protection for such contingencies as disability, death, and retirement.

Other CPP features include disability pensions and death benefits, both described elsewhere. All benefits are treated as income for tax purposes, and are considered to be "other income" in determining the amount of benefits under income-tested programs - Guaranteed Income Supplement, Spouse's Allowance, and GAINS.

Table 10
CPP Statistics

1. Number of Recipients in Ontario, June 1979

Retirement benefits	347,113
Disability pensions	42,711
Children's benefits - under 18	14,448
- 18 and over	3,416
Lump-sum death benefit	2,042
Surviving spouse pension	95,176
Orphan's benefits - under 18	38,193
- 18 and over	10,668
Combined pensions	14,384
Total	568,151

2. Amount of New Benefits Payable in Ontario, June 1979

	Maximum	Ontario Average
Retirement benefits	$ 218.06	$159.97
Disability pensions	216.06	182.88
Children's benefits	52.51	52.51
Lump-sum death benefit	1,170.00	926.92
Surviving spouse pension	134.28	112.39
Orphan's benefits	52.51	52.51
Combined pensions	218.06	151.62

3. Benefit Payments in Ontario, June 1979, ($'000)

Retirement pensions	$40,233.3
Disability pensions	8,444.6
Children's benefits - under 18	924.9
- 18 and over	246.7
Lump-sum death benefits	1,892.8
Surviving spouse pension	10,945.8
Orphan's benefits - under 18	2,097.9
- 18 and over	656.4
Combined pensions	2,150.4
Total	67,592.7

4. Benefits as Per cent of GNP (Fiscal year ending March 31, 1978)
Canada - .48 per cent   Ontario - .26 per cent
5. Benefits as Per cent of Federal Expenditures (Fiscal year ending March 31, 1978)
Canada - 2.3 per cent   Ontario - 1.3 per cent
6. Contributions (1978-79)
Canada - $2.1 billion   Ontario - not available
7. Individual Maximum Contribution (1979)
Employee - $190.80   Self-employed - $381.60
8. Earnings Ceiling; Basic Exemption (1979)
YMPE - $11,700   YBE - $1,100

Source Canada Pension Plan, Statistical Bulletin, Special Edition 1979; additional data from Department of National Health and Welfare, Department of Finance.

TAX BENEFITS FOR THE ELDERLY

The 65 and over group is entitled to a variety of tax-related benefits - some of them aimed specifically at the welfare of the elderly, and some of more general application. Those with a significant bearing on retirement income are: income tax exemptions and deductions, and Ontario tax credits. Brief descriptions follow; a more detailed treatment will be found in a later chapter (Government Regulation - Taxation).

Income Tax Exemptions and Deductions

Married Exemption

Persons supporting a spouse may claim a deduction amounting to $2,130 (1978) or the difference between $2,530 and the spouse's net income, if less. In 1976, the exemption was $1,830, and the total claimed by tax filers 65 and over in Canada was $328,620,000 - 97 per cent of this amount being claimed by males.(3) The figures do not permit calculation of the number over age 65 benefiting from the exemption, since a spouse may be under 65. Provincial breakouts by age are not available.

Income Tax Age Exemption

Persons aged 65 and over may claim an exemption over and above the Basic Personal Exemption. For the 1978 taxation year the age exemption was $1,520 (the basic exemption was $2,430).(4) The exemption is transferable between spouses - that is, any unused portion for a spouse without taxable income may be claimed by the taxpayer spouse. In 1976, the latest year for which tax data are available, the age exemption was $1,310. Tax returns were filed by 659,925 persons age 65 and over in Ontario, though only 177,212 had taxable income. The total of age exemptions claimed in Ontario that year was $865,171,000.(5) It could be concluded that the age exemption alone is responsible for removing a sizable number of persons from the tax rolls.

Pension Income Deduction

Taxpayers may deduct up to $1,000 of pension income, other than OAS and CPP, according to certain criteria. Since pension income includes disability, survivor and early retirement benefits, the numbers of persons 65 and over on retirement benefits cannot be isolated. The amount claimed by all tax filers (Canada) 65 and over was $397,027,000, of which 66 per cent was claimed by men. Pension income from other than OAS and CPP sources represented 15.3 per cent of assessed income of male taxpayers 65 and over, and 11.7 per cent for women.(6) The exemption is relatively more valuable to low-income taxpayers, although the dollar amount of saving is greater for those in the higher tax brackets.

Interest and Dividend Income Deduction

Taxpayers may deduct up to $1,000 per year of interest received from Canadian sources or dividends from taxable Canadian corporations, or (since 1978) capital gains. Figures for the 1976 taxation year show that income from these sources is important to those 65 and over:

Table 11
Sources of Investment Income of Tax Filers Aged 65 and Over, by Sex, 1976 (Canada)

Source of income	Men	Women
	(Per cent)	
Taxable amount of dividends	4.3	7.4
Bond interest	4.2	7.0
Bank interest	14.3	20.4
Mortgage interest	2.3	3.0
Income from trusts	.5	3.2

The total of deductions claimed in 1976 income tax returns for persons 65 and over (Canada), for major items, was as follows:(7)

Age exemption	$ 865,171,000
Married exemption	328,620,000
Pension income deduction	397,027,000
Interest and dividend income deduction	665,270,000
Wholly dependent children, etc.	21,060,000
	$2,277,148,000

Ontario Tax Credits

Ontario residents are entitled to certain income tax reductions (including refunds in some cases) based on taxable income. Although only one type of credit is related specifically to age, the program as a whole is relevant to any discussion of retirement income.

Currently, four types of tax credit are provided: Pensioner Tax Credit, Property Tax Credit, Sales Tax Credit, and Political Contribution Tax Credit. The amount of credit actually allowed in the case of the first three is the excess of these credits (in aggregate) over 2 per cent of taxable income, to a maximum of $500. Political contributions are partially deductible from tax, on a sliding scale.

The tax credit program applies to all residents of Ontario whether they have taxable income or not, but application must be made by filing an income tax return. Tax credits are applied to reduce the provincial tax, and where the value of the credits exceeds the tax payable a refund

is made. An exception is the Political Contribution Tax Credit, which is applied to reduce the tax payable but is not otherwise refundable.

To be eligible, persons must be resident in Ontario on December 31 of the taxation year and must file an income tax return whether or not they have taxable income. If temporarily absent, the person must file an income tax return as an Ontario resident. For persons moving out of the province permanently, claims must be prorated to the last day of residence. Minimum age of eligibility for a tax credit is 16, provided that person is not claimed as a dependent. Some of the benefits are transferable between spouses.

Section 6(2) of the Ontario Income Tax Act provides for the credit program, which is financed by the province but administered by the Department of National Revenue through the personal income tax system.

The four types of credit are analyzed here as they apply to Ontario residents age 65 and over.

Pensioner Tax Credit

Introduced in 1973, the pensioner tax credit is the only age-related credit. In 1978 it amounted to $110 per single person or couple as follows:

- any single resident aged 65 and over;

- any married couple resident in Ontario where one spouse is aged 65 or over;

- any married couple where both are aged 65 or over, in which case the one having the higher taxable income applies.

In the case of a couple 65 or over where neither spouse has taxable income, the spouse claiming a Property Tax Credit may claim; if no Property Tax Credit is claimed, either one may claim the Pensioner Tax Credit. Where only one spouse is 65 or over, that spouse must claim the Pensioner Credit even if the other spouse is claiming the Property Tax Credit. Since the pensioner credit is a flat amount, it is relatively more valuable to low-income seniors, especially since cash refunds are made. Note that the amount actually deductible from tax is limited by an offset of 2 per cent of taxable income and a maximum of $500, applied to the total of tax credits (except political contributions).

Property Tax Credit

The Property Tax Credit applies to all residents regardless of age. In 1978 the formula was $180 or the Occupancy Cost, whichever was the lesser, plus 10 per cent of the Occupancy Cost. For homeowners the

occupancy cost is the 1978 property tax paid; for tenants it is 20 per cent of the rent paid.

Table 12
Ontario Tax Credits, 1976 Statistics

1.	Number of Recipients 65 and over (1976 Taxation Year)	
	Pensioner Tax Credit	552,149
	Property Tax Credit	265,158
	Rental Credit	206,050
	Sales Tax Credit	607,355
	Political Contribution Credit	2,983
2.	Average Credit per Tax Filer 65 and over (1976)	
	Pensioner	$110.00
	Property tax	326.43
	Rental	313.31
	Sales tax	36.17
	Political contribution	31.33
	Total	268.65
3.	Amount of Credits, Persons 65 and over (1976)	
	Pensioner	$ 60,736,390.00
	Property tax	86,454,006.58
	Rental	64,556,781.63
	Sales tax	19,969,994.38
	Political contribution	92,800.56
	Total	$231,809,973.15
4.	Size of Credit Received, Persons 65 and over (1976)	
	$ 0- 9.99	1,236
	10- 24.99	2,208
	25- 49.99	65,776
	50- 99.99	11,095
	100-199.99	96,406
	200-349.99	216,341
	350-499.99	226,627
	500 and over	459
5.	Credits to Persons 65 and Over as Per cent of GPP (1976)	
	.03 per cent	

Source Ontario Ministry of Revenue.

Introduced in 1972 as the first measure in the program, the Property Tax Credit applies to residents regardless of age. Currently, the amount actually deductible from tax is limited by an offset of 2 per cent of taxable income and a maximum of $500, applied to the total of tax credits (except political contributions).

The credit applies only to a principal residence, that is a housing unit in Ontario which is ordinarily occupied by the claimant; and claims may be made against only one housing unit. Should residence change during the year, claims must be in proportion to the length of residence in each housing unit.

In the case of married couples the spouse with the higher taxable income must claim, regardless of ownership or who pays the taxes or rent. In cases where separate principal residences are maintained, each may claim. In addition, persons occupying public housing or senior citizens' housing may claim, as may residents of homes for the aged, nursing homes, chronic care hospitals or similar institutions. In the latter cases "rent" means actual payments and not subsidies paid through OHIP under the extended care program.

Sales Tax Credit

In 1978 the Sales Tax Credit was 1 per cent of total personal exemptions as shown in the federal Income Tax return. Any resident over age 16 may apply, unless claimed as a dependent by another tax filer. Any resident entitled to transfer unused exemptions for education, blindness or other disability to another person may still claim the Sales Tax Credit. As noted previously the amount actually deductible from tax is limited by an offset of 2 per cent of taxable income and a maximum of $500, applied to the total of all tax credits except political contributions.

Political Contribution Tax Credit

The latest of the provincial credits, added to the program in 1975, the Political Contribution Credit is the only portion not available in the form of a cash refund. For 1978, the formula was:

- 75 per cent of the first $100 of total contributions; plus
- 50 per cent of the next $450 of total contributions; plus
- 33-1/3 per cent of the amount of total contributions exceeding $550,

the whole subject to a maximum credit of $500.

Credits may be transferred between spouses, but where there is only one official receipt for a single contribution, the claim may not be split by the couple. Official receipts are obtained from the chief financial officer of a registered party, candidate, or constituency association and apply to donations made to such organization or to a registered candidate in a provincial election.

Table 13
Ontario Tax Credits, Claimants 65 and Over by Income, Taxation Year 1976

Annual income	Pensioner credit	Property tax credit	Sales tax credit	Political contribution credit
(Dollars)				
Under 5,000	325,639	267,438	371,975	279
5,000-10,000	143,757	129,432	152,027	620
10,000-15,000	50,808	48,770	51,212	571
15,000-20,000	20,128	20,199	20,270	381
20,000-25,000	8,386	8,573	8,420	237
25,000-50,000	3,315	5,478	3,331	527
Over 50,000	116	554	120	348
Total	552,149	480,444	607,355	2,963

Source Data supplied by Ministry of Revenue, Ontario, Guaranteed Income and Tax Credit Branch.

Other government-sponsored programs from which those 65 and over benefit are based on exemptions or subsidies rather than cash transfer payments. As we shall see in the following section, these are important financial sources for many in the senior population, and bear examination on their own merit.

OTHER GOVERNMENT BENEFITS

Ontario Health Insurance Premium Exemption

Ontario is one of three provinces requiring premiums for health care, but premiums are waived for the senior population and low-income persons. Those aged 65 and over who have resided in Ontario for the previous twelve months may apply to have premiums waived for themselves and any dependents.(8) The value of this benefit to the pensioner is $20 per month in the case of a single person, and $40 for one with dependents. Since the family premium rate covers a spouse under 65 as well as any other eligible dependents, the available OHIP statistics cannot be matched with those for the population 65 and over. However, the Ontario budget papers for 1978 reported that the pensioner premium exemption affected some 800,000 persons, at an estimated cost of $154 million in the 1977-78 fiscal year.(9)

Ontario Drug Benefit Plan

Prescription drugs are available without charge to Ontario residents aged 65 and over. Persons eligible for the Old Age Security pension automatically receive an Ontario Senior Citizens Privilege Card in the month following the month in which they receive their first pension

payment. The Privilege Card serves to identify them for the Drug Benefit program. Those over 65 not qualifying for OAS may receive a Drug Benefit Eligibility Card upon application. Since this benefit is for individuals only, a married person aged 65 will be entitled to free prescription drugs while the spouse, if under 65, will not. (A similar benefit is provided, however, to social assistance recipients.)

The Drug Benefit program entitles residents of Ontario age 65 and over to free drugs which have been

- prescribed by a duly qualified medical practitioner or dentist,

- approved by the Minister, and

- purchased in or after the month after a person has established eligibility for the benefit.(10)

Actual utilization by those 65 and over is not recorded separately from that of others covered by the drug program, such as family benefit recipients and patients in special care institutions. According to Treasury estimates for 1977-78, some $73 million was the annual cost of free drugs for the 750,000 individuals in the 65 and over group.(11) These figures could be expressed as an annual average of $97 per person, and the monthly equivalent, slightly over $8, represents the cost of insurance provided by the government in addition to the $20 (single person's premium) attributable to free OHIP coverage.

Housing

Some benefits and programs are aimed at selected groups within the senior population, such as home-owners, students, low-income persons, and those with limited mobility. The most common example of such a program is in housing, where all three levels of government provide incentives to builders and land developers, subsidies or tax exemptions to landlords, arrangments for special mortgages, and help in feasibility and development studies.(12) Three main types of assistance are directed specifically at the needs of the elderly.

Assisted Rental Housing

Funded by federal, provincial, and municipal governments and administered by the province, the Assisted Rental Housing program provides rental housing for lower-income families and senior citizens. For the latter group the program is geared to those aged 60 and over who are capable of looking after their own daily needs, and rent (before assistance) ranges from 20 to 25 per cent of gross income. A point rating system is used for selecting needy applicants; it is based on such factors as length of residence in the municipality, overcrowding and physical conditions in the present dwelling, health or medical factors, amount of income now spent on rent, and number of dependents.

Those older persons potentially eligible for rental assistance are the 25.6 per cent of male household heads 65 and over and 48.3 per cent of female household heads in Ontario who rent accommodation. While renters are fewer in each case than for the population aged 15-64 (31.1 and 65.3 per cent respectively) the notably higher proportion of women renting is consistent.(13)

A brief from the London Housing Authority(14) shows demographic characteristics and income levels of persons on the waiting list for accommodation. Of the 136 applicants, 24.3 per cent were under age 64, 35.3 per cent were 65-69, and 40.5 per cent were 70 or over. Applicants included 63 single women, 29 single men, and 44 couples. Income levels are not available by sex or marital status but, overall, 4.4 per cent had monthly incomes of $210 or less; 43 per cent between $211 and $300; 34.2 per cent between $301 and $450, and 18.4 per cent between $451 and $600. The upper figure, $7,200 on an annualized basis, is below the guarantee from OAS/GIS/GAINS for a married couple, both 65 or over: $8,000 per year as of January, 1979.

Rental subsidies to landlords are available from all three levels of government for existing housing units and new units. Because of rising costs the subsidy for new units works out at approximately double the cost of existing units. The amounts provided, together with the percentage of the total monthly subsidy for each level of government are:

	Existing units	New units
Federal (50 per cent)	$ 62.41	$120.28
Provincial (42.5 per cent)	53.04	102.23
Municipal (7.5 per cent)	9.36	18.04
Total subsidy	$124.81	$240.55

No figures are available for Ontario as a whole which would permit a per capita calculation of benefits for seniors from such programs; but the London experience is a useful illustration. The London authorities have a number of persons on an inactive list for reasons such as too few points or unwillingness to move to another part of town. This latter reason has been found prevalent in other centres, and the present assessment is that the demand for senior citizen housing in larger centres is being met by recent construction and normal turnover. This view is put forward in correspondence from the Ontario Housing Corporation which states:

> "...in smaller municipalities and in more rural areas of the Province there appears still to be some demand. This demand is judged to stem not so much from financial need but rather from the difficulties experienced by many senior citizens in coping with their

present homes, their desire to be amongst people of similar age and the absence of suitable apartment houses within the private sector."(15)

In this connection it should be noted that subsidies are not counted as income in income-tested support programs such as GIS and GAINS; the consequent advantage to clients of such programs as government-subsidized housing should be kept in mind when examining the financial status of senior citizens.

Municipal and School Tax Credit Assistance

This program is funded by the province but administered municipally, and is governed by an act of the same name.(16) The program provides assistance to homeowners 65 and over in the form of an annual interest-free loan of $150. No needs or income test is required in order to obtain the benefit. The amount is repayable when the house is sold, and until then is a lien on the property. No figures are available to show how many seniors in Ontario are benefiting; but in Toronto in 1976, some 7,052 received this credit.

The City of Toronto has its own tax credit program for seniors in receipt of GIS who have lived in the same house for a minimum of five years. Maximum credit is $100 per year, and in 1976 just over 700 residents received it. The credit is not repayable.

Municipal Elderly Residents' Assistance

This program, which is governed by an act of the same name is administered by the province and funded by those municipalities which choose to participate.(17) The act permits municipalities to pass bylaws authorizing special payments to assist owners, tenants, or builders of residential property. No figures are available for the number of recipients of such benefits or the average amount of assistance.

OTHER BENEFITS FOR THE ELDERLY

Some government agencies and Crown corporations favour the senior population with reduced fares, exemptions, and other forms of benefit. Some principal examples of such policies in organizations owned or supported by government are:

Transportation

Air Canada, VIA Rail, GO Transit, and municipal transportation systems have varying degrees of fare reduction for senior citizens.

Entertainment and Amusement

Museums, historical sites and art galleries, Ontario Place, the Metropolitan Toronto Zoo, CN Tower, National Arts Centre, O'Keefe Centre, Ontario Science Centre, and other similar institutions offer free entry or reduced admission prices for seniors.

Education

Universities and colleges frequently reduce or eliminate tuition fees for persons over 65, and in some cases the same privileges are extended to younger persons in the "retired" category.

Recreation

National Parks do not charge admission, and camping fees in provincial parks have been eliminated for persons 65 and over.

While in some cases it has been possible to estimate the numbers of persons availing themselves of the services in question, it must be recognized that only those with sufficient income to pay part of the price, and sufficient independence of movement to get out into the community can benefit from these concessions.

EFFECTIVENESS OF GOVERNMENT PROGRAMS

Government programs provide a wide range of benefits for the elderly. The combination of federal and provincial programs in Ontario guarantees a monthly income (January 1980) indexed quarterly to increases in the cost of living, amounting to $371.06 for an individual and $722.12 for a couple aged 65 and over. A social insurance program, the CPP, provides a maximum retirement pension of $244.44 a month (1980), indexed annually, as well as survivor and disability benefits. All persons aged 65 and over have free OHIP coverage and a free drug program. Certain tax programs and other benefits are available for the elderly.

Adequacy

Assessment of the effectiveness of all these programs involves a consideration of whether the amount of income guaranteed by government programs is adequate in retirement. The Commission examines that important aspect in the following chapter. An evaluation of the CPP is contained in the Canada Pension Plan volume.

Coverage

Assessment of the availability and utilization of government programs shows a high degree of coverage. As might be expected, the uni-

versal OAS pension is received by virtually everyone aged 65 and over - 99 per cent in Ontario (1976). All who are eligible for OAS are also eligible for GIS. In Ontario, those aged 65 and over who are not eligible for OAS/GIS may qualify for the GAINS program to make up the equivalent amount.

The Old Age Security program together with the supplements ensures that many who would be without coverage in an earnings-related system do receive benefits. For example, the part-time worker, the woman who has worked exclusively as a home-maker, the physically handicapped, and others outside the scope of earnings-related arrangements have guaranteed annual incomes. Lack of regular work-force participation is not a factor in determining a person's right to income support.

While the number of recipients of CPP constituted 38.1 per cent of OAS recipients in Ontario in 1977, the program's 10 year phasing-in period was only completed in 1976. The CPP covered some 96 per cent of employed and self-employed workers in 1976.

Unlike most employment pension plans, the CPP covers part-time workers. Its design ensures that anyone who earns over the Year's Basic Exemption has access to retirement benefits, regardless of sporadic attachment to the work-force, change of employer, or full or part-time status. Because of the conditions for ancillary benefits, part-time workers can qualify for survivor and disability benefits based on at least some contributions in a certain number of years. As a consequence, CPP is virtually the only source of disability and survivor pensions for part-time workers. Similarly, the plan provides coverage for the self-employed, many of whom otherwise would have no comparable benefits.

The Canada Pension Plan was developed as a response to the lack of coverage, vesting, and portability in employment pension plans. Immediate vesting in the CPP ensures that persons with irregular attachment to the work-force nevertheless accumulate pension credits and retain them without having to meet minimum service or membership conditions. Total portability also responds to the realities of Canada's mobile work-force, such as a climate which dictates seasonal work patterns in many occupations. Those who suffer unemployment at some time during the year, therefore, do not jeopardize the credits already earned, and will continue building on that base when re-employed, even with a change of location or employer.

Surviving Spouses

Recognizing that hardship could arise for women upon the death of a breadwinner spouse, the Canada Pension Plan provided for survivor pensions (first payable in 1968) - originally structured on traditional lines so that benefits were payable to widows, but not to widowers unless dependent. That distinction was eventually removed. The survivor

benefit is based on the age of the surviving spouse and the presence of children, on the theory that it is easier for a younger widow or one without children to find gainful employment. Also, in recognition of the possibility that a surviving wife will have some CPP retirement benefit in her own right as well as OAS benefits, the survivor's benefit is lowered slightly for those aged 65 and over. By September 1978 nearly 89,000 persons in Ontario had drawn or were drawing surviving spouse benefits from CPP, for a total expenditure since inception of the Plan, of over $9 million.(18) Survivor benefits terminate on remarriage but may be reinstated in the event of a subsequent termination of marriage.

A further recognition of the lack of financial resources of surviving spouses, particularly older women, is the Spouse's Allowance. Income-tested benefits to a low-income couple where one is an OAS recipient and the other between 60 and 65 meet the very real need of couples dependent on a pension based on one wage-earner. For those who are not married to a pensioner, recourse must be had to the provincial social assistance program which provides a significantly lower level of support at ages under age 65 than is guaranteed to persons 65 and over by GAINS or provided by the Spouse's Allowance.

Protection from Inflation

The high rates of inflation which the world experienced following the OPEC decision to raise the price of oil brought sharply into focus the plight of those living on fixed incomes. The transfer of income away from pensioners and others dependent on state aid to those with bargaining power in the market-place caused a re-examination of policies concerning the automatic increasing of benefits.

Amendments in 1974 provided for all federal social benefits (Old Age Security, Guaranteed Income Supplement, Family Allowances, Veterans' Pensions, Canada Pension Plan) to increase fully for rises in the Consumer Price Index.

With the indexing of personal income taxes in 1974 the Government of Canada acknowledged the revenue windfall to governments in inflationary times. While tax indexing protected the taxpayers, it could provide no relief to those at the bottom of the economic scale with little or no taxable income. Pensioners are particularly vulnerable in times of inflation, especially those dependent on income supplementation programs - GIS, SA, and GAINS. Indexing of personal income taxes has little or no bearing on their situation. It is only when the direct payments to recipients are indexed that their purchasing power can be maintained.

Old Age Security

Indexing was first applied to Old Age Security benefits in 1968, using the Pension Index developed for purposes of the Canada Pension Plan. Annual escalation at first was limited to 2 per cent, but that

restriction was removed effective with payments for January, 1972. From that time all program benefits including GIS guarantees and the Spouse's Allowance have been adjusted - quarterly since October, 1973 - to reflect the full increase in the Consumer Price Index. Adjustments take effect in January, April, July, and October; each is based on a 3-month moving average of monthly CPI figures. For example, the OAS pension of $164.74 payable in October through December, 1978, was raised to $167.21 in January, 1979 by means of the following calculation:

OAS Pension, January 1979

$$= \$164.74 \times \frac{\text{CPI average for Aug./Sept./Oct. 1978}}{\text{CPI average for May/June/July 1978}}$$

$$= \$164.74 \times \frac{(\text{average: } 177.8 + 177.5 + 179.3)}{(\text{average: } 173.6 + 175.1 + 177.7)}$$

$$= \$164.74 \times \frac{178.2}{175.5}$$

$$= \$164.74 \times 1.015$$

$$= \$167.21$$

The Act provides that in cases where the Consumer Price Index has decreased over the adjustment period no decrease in benefits is made. There is no ceiling on increases to benefits. The same method will be used to adjust partial OAS pensions when they become payable.

Since the Guaranteed Income Supplement and Spouse's Allowance are part of the Old Age Security legislation, their indexing has been identical, and supplement payments now rise each quarter for Consumer Price Index increases. In this way the universal and income-tested programs aimed at those most in need are more responsive to changes in the cost of living than the CPP, whose benefits are adjusted only once a year.

Guaranteed Annual Income System

Because of the nature of the provincial program, payments under GAINS are not subject to direct indexing, although discretionary changes in the amount of payment have been made. However, in order not to penalize recipients for rises in OAS/GIS payments due to inflation, the guarantee limit is raised each quarter to reflect the federal indexing increase. Thus, although the GAINS ceiling increased, the maximum benefits for single persons and married individuals were a constant $38.88 and $52.01, respectively, from January 1976 to the end of 1978, and these amounts were maintained when the federal GIS was raised by $20 per family unit (single person or couple) in January 1979. Subsequently, however, Ontario implemented a modified system for its quarterly revisions in order to maintain the same single/married ratio that had been achieved with the January 1979 revision. In brief, the single person's benefit from GAINS remained at $38.88 (maximum) while the married indi-

vidual's benefit was adjusted according to the slightly higher dollar escalation received by a single person as a result of the flat-rate GIS increase. The effect of this change was to increase the married (individual) benefit from $52.01 at the beginning of 1979 to $54.12 in January 1980.

Canada Pension Plan

According to the original legislation all Canada Pension Plan benefits in course of payment were to be adjusted each January, starting in 1968, by means of a Pension Index. Originally based on the average CPI for 12 months ending with June and limited to a 2 per cent increase per year, the index is now calculated for 12-month periods ending in October and, more important, escalation is not subject to an annual maximum. The increase is applied in full each January to all monthly benefits whose payment commenced previously, and to the flat rate portion of various benefits commencing in the current year.

A different formula is used in computing the Earnings Index, which is the basis for an annual adjustment of the YMPE or earnings "ceiling." Its purpose is to update contributions and eventual earnings-related benefits. During the ten-year transition period 1966 to 1976 the Pension Index was to serve this purpose; afterward, the Earnings Index was to be used, constructed from average industrial wages rather than consumer prices. With accelerating inflation, however, a 2 per cent annual limit became untenable for benefit purposes, and at the same time resulted in a growing gap between the earnings ceiling and actual average wages in industry. When benefit escalation was made subject to full CPI increases the Earnings Index was, in effect, suspended. Annual YMPE increases were accelerated; at present the rate is 12-1/2 per cent per year, and that will continue until the YMPE overtakes the Industrial Composite Wage.

The retirement benefit is calculated as 25 per cent of average pensionable earnings for the three final years of participation in the Plan. Consequently, YMPE escalation is reflected in initial benefits from January on. A contributor whose retirement pension commenced any time in 1979, and whose contributions had been at the YMPE level, would receive a pension calculated as follows:

YMPE, final three years:	1977	-	$ 9,300
	1978	-	10,400
	1979	-	11,700
			$31,400
Average		-	$10,466.67
25 per cent of average		-	$ 2,616.67
Monthly pension		-	$ 218.06

Because the YMPE at present is escalating faster than inflation, the increase in maximum benefits from year to year is greater than the CPI-related increase for benefits already being paid. The following table shows maximum initial retirement benefits in each of the last four years, and the escalated amounts payable in subsequent years:

Retired in	Receives in			
	1976	1977	1978	1979
	(Dollars)			
1976	154.86	167.56	180.13	196.34
1977	-	173.61	186.63	203.43
1978	-	-	194.44	211.94
1979	-	-	-	218.06

Indexing for inflation does not apply to the other programs discussed in this chapter. The Tax Credit program has maintained a constant Pensioner Tax Credit amount and a constant maximum since inception. Nevertheless the major cash transfer programs to persons 65 and over, with the amendments of 1974, have had their purchasing power maintained in the face of CPI increases.

Role of Government

As we saw in the previous two chapters, governments have assumed the leading role in the provision of retirement income. Government programs provided 40 to 61 per cent of all income in retirement (1975). The degree to which the government programs should be expanded and improved will be discussed in various contexts throughout this report. The Commission will be examining in great detail the role of employment pensions, and conclusions concerning the overall role of government will be addressed after a study of retirement income from non-government sources.

NOTES

(1) J.E. Cloutier, The Distribution of Benefits and Costs of Social Security in Canada, 1971-1975; discussion paper No. 108, Economic Council of Canada (1978).

(2) Section 53.2 of the Canada Pension Plan (R.S.C. 1976-77, c. 36, s. 7) reads:

> "An application in writing to the Minister may be made by or on behalf of either former spouse to a marriage or his estate or such person as may be prescribed by regulation within 36 months of the date of a decree absolute of divorce or of a judgment of nullity of the marriage, granted or rendered on or after January 1, 1978, for a division of the unadjusted pensionable earnings of the former spouses."

(3) Revenue Canada, Taxation Statistics. Age breakouts are not available for the provinces.

(4) Income Tax Act, R.S.C., 1970-71-72, c. 63 as amended; Section 109(1) 9L.

(5) Revenue Canada Taxation, Taxation Statistics, 1978 Edition.

(6) Ibid.

(7) Ibid.

(8) Health Insurance Act, S.O. 1972, c. 91 as amended.

(9) Ontario Budget 1978, Budget Paper B, p. 6.

(10) Family Benefits Act: Regulations, RRO 1970 as amended to August 1, 1977 - No. 287.

(11) Ontario Budget 1978, Budget Paper B, p. 6.

(12) See: Ministry of Housing, Housing Ontario, Vol. 21, No. 8.

(13) Statistics Canada, Census of Canada, 1976, Cat. 93-804, Vol. 3. The Census definition of household head includes either husband or wife.

(14) Brief 329: London Housing Authority Review of Analysis of "Active and Inactive" Applications for Senior Citizen Accommodation, March 22, 1978.

(15) Letter to the Commission from the office of the Chairman, Ontario Housing Corporation, August 14, 1978.

(16) The Municipal and School Tax Credit Assistance Act, R.S.O. 1970, c. 285.

(17) The Municipal Elderly Residents' Assistance Act 1973, c. 154 as amended.

(18) Health and Welfare Canada, Canada Pension Plan Statistical Bulletin, Vol. 10, No. 3, September 1978.

LIST OF TABLES

Chapter 6

Adequacy of Benefits from Government Programs

In its terms of reference, the Commission was asked to evaluate the "effectiveness in terms of present social and economic circumstances" of "existing retirement pension plans and arrangements." To assess "effectiveness" the Commission decided to look at the "existing arrangements" from various aspects: How many people are entitled to receive income? How much is the cost to society as a whole, and to certain segments of society, of providing the income? What degree of government interference is required to regulate the arrangements? How adequate are the amounts people are now receiving from the arrangements?

Our assessment deals separately with income from government programs, which were reviewed in detail in the preceding chapter, and income from employment pension plans. Employment plans are established voluntarily by employers, their terms and conditions vary widely, and they affect only a part of the population. Different criteria are required to evaluate them; hence they are dealt with in later chapters. Therefore, we have confined the discussion in this chapter to the adequacy of income now being received by people in Ontario from government programs alone.

WHAT IS ADEQUATE?

Poverty defined in terms of an absolute standard is that condition which leads to "feebleness resulting from insufficient nourishment." Though such abject poverty is not generally found in Canadian society, social and charitable anti-poverty programs are based on the fundamental principle that no one should be faced with living in such circumstances. Beyond that minimum standard, any decision as to what is adequate involves a value judgment. To define income adequacy, as is often done,

in terms of the amount required to enable a person to take part in the activities of the community may be appropriate, but the degree of participation desired is still subjective, affected by a person's health, personality, background, and the other people with whom activities are shared, as well as by economic circumstances.

Standards of Adequacy for Retirement Income

What standard then can we use to assess the adequacy of retirement income? Everyone needs some income in retirement. Some will need more than others. It is generally accepted that across society there is some acceptable minimum income without which no one should be expected to live, but perceptions of the amount will be affected by the anticipated income source. If people believe that government should provide a basic retirement income, then the amount is usually expected to be lower than if that minimum were received as a result of employment. Alternatively, if retirement income is to be self-provided there is no agreed-upon maximum. Often in the discussion of the question, little importance is attached to these differing perceptions, though they are likely a factor in setting adequacy levels.

The question of adequacy of retirement income emerged as an important issue in the briefs submitted to the Commission. While their prescriptions and perceptions of an acceptable level of income ranged broadly, two principles were enunciated:

- There should be some minimum floor of protection below which no person's income should be permitted to fall. This minimum should be guaranteed by government.

- There should be some recognition that income after retirement should bear a reasonable relationship to income before retirement, so that the standard of living to which a person has been accustomed during working years can be continued. Opinions varied as to how this level of income should be attained.

Some of the briefs outlined the goals to be met in establishing an adequate level of income for government programs. For example, the Ontario Association of Professional Social Workers argued that

> "The retired person should have sufficient and adequate supplies of food and clothing; he should have an appropriate form of housing accommodation, depending on his state of health, his marital status and his family position; he should have available a variety of services ranging from medical services to recreational services; he should have an opportunity to be alone as well as to be in the company of others and, if possible, he should not be forced into either position exclusively." (Brief 136)

The Ontario Welfare Council placed the onus for maintaining income adequacy on the state, which

> "has a responsibility to ensure that its citizens of retirement age continue to have income adequate to maintain themselves at least at a basic level preferably to maintain approximately the status of life they enjoyed before retirement." (Brief 194)

Imperial Oil Limited concluded that

> "There appears to be some social consensus as to the amount of retirement income that could be considered 'basically adequate.' This may be defined as sufficient to allow an individual or couple to live in a decent and dignified manner. It meets physical needs for food and shelter and provides for public transportation, some limited entertainment, and social expenses. Personal privacy and independence in self-contained accommodation are included."
> (Brief 289)

Comments from a pensioner survey conducted by the Kap Golden Age Club (Kapuskasing) are an expression of pensioners themselves of the necessary ingredients for an "adequate" lifestyle:

"1. While they are able, all pensioners appreciate being able to operate their cars so that they can visit around town and not be dependent upon others for transportation or the high cost of taxi fare.

2. The ladies appreciate being able to get their hair done regularly and get new clothes periodically in order to carry on with normal grooming.

3. Travel is an important feature, not for personal pleasure necessarily but to visit children who are usually scattered throughout the country. Visiting over the Christmas period is therapy more than anything else and pensioners should not have to be dependent upon relations to absorb travel costs.

4. The main expenditure under the miscellaneous category consisted of gifts to children, grandchildren and various relatives - again to be able to keep that very important pride to do one's bit on special occasions.

5. In order to live gracefully and not "high on the hog," many pensioners have to regularly rely on savings (most of which are small), indicating that pension receipts from various sources are insufficient to take care of the normal day to day living costs.

6. The greatest fear of all pensioners is sickness and failing health with extra resultant costs due to transportation, specialized services, etc., and the particular fear that poor health has to be related to dollars - dollars that are kept aside from the days of full earning power and which a person then is reluctant to use for some other necessary healthy activity."

The Consumers' Association of Canada summed up a similar position in saying that

"The pension system should provide retirement income assurances which not only guarantee an adequate minimum living standard to everyone, but also permit people to protect an accustomed way of life in old age." (Brief 311)

The Canadian Institute of Religion and Gerontology was concerned as well with the quality of life of seniors in the community:

"We should distinguish the basic needs for survival from the essential needs for functioning humanly. Seniors should be able to contribute to community life, have sufficient money to provide their own needs, control their own destiny and freely choose their activities when they are healthy." (Brief 174)

The Board of Trade of Metropolitan Toronto reminded us that, along with government programs, private pensions and special programs contribute to retirement income:

"We believe very strongly that the Federal and Ontario benefits are at a sufficiently high level and should not be increased across the board. If that were done most of the increases would go to people who do not need them. The replacement ratios illustrate that retirees in Ontario are receiving significant net government pensions at and below the industrial wage level. The private pension industry fills the need over this level and any government benefits will tend to diminish the role of private pensions which are an important source of capital investment in this country. If any increase in the minimum benefits should at any time be deemed necessary, in our view this should be by way of an increase in the GIS or GAINS, so that it would be paid only when needed." (Brief 199)

With the briefs in mind, our next task was to translate the principles and goals of income adequacy into some dollar amounts against which we could compare the benefits now being received from the government programs. An outline of the concepts used in the discussion follows:

"adequacy" - a social judgment of the amount of income which should be paid by government programs to allow a person 65 and over to live in Canadian society.

"<u>adequacy level</u>" - the amount of income required for "adequacy" in 1979 for the persons who retired at the end of 1978.

"<u>adequacy standard</u>" - "Adequacy standard" is a formula or base by which an "adequacy level," which is for a particular year, can be determined without resorting to empirical evidence in the year. Thus the "adequacy standard" could be designed to reflect changes in price and/or wage levels so that "adequacy levels" for a series of years will remain "adequate" in changing conditions.

"<u>available income</u>" - a total of the dollar value of various benefits received for a particular year, including direct money payments. For example the presence of an income tax exemption which results in lower income taxes to be paid increases the value of direct money payments by the amount of the decrease in income taxes. For the Commission's purposes "available income" is the total income dollars received from all government old age programs less income tax (if any), calculated using age 65 exemptions and other applicable exemptions and deductions, plus the value of the Ontario Tax Credits. The amount of tax credits will vary with individual circumstances and may result in a direct cash refund, a partial refund or a reduction of taxes to be paid.

A number of other benefits and reductions could also be considered of value. For example, if A receives $400 a month but through rent subsidization pays no rent, A receives the same amount of "available income" as B who receives $500 a month in direct payments but pays rent of $100 a month. However the Commission has decided not to add value for "housing subsidies" as these are not universally available. Nor was any amount added in determining "available income" for the value of free drug benefits or for the OHIP premium waiver which now represents $20 a month to a single person and $40 a month to a married couple though these benefits are now being received.

"<u>advocated adequacy levels</u>" - The Commission considered a number of suggestions from various sources as to what was needed for "adequacy" in 1978. Most of these suggestions were stated in terms of <u>gross</u> direct money payments. These amounts were then indexed by the Commission so that the reference period for all the suggestions was uniform. Many of the groups in making their suggestions did not make it clear whether the figures given were before or after income tax so we concluded that all were before-tax figures. The task then undertaken by the Commission was the translation of these gross figures into an "adequacy level" which could be related to "available income." We decided to equate the gross figures of the proposals with "available income" figures as this seemed to result in the most generous interpretation of the advocated amounts.

"net replacement ratios" - Most people accept the principle in establishing adequacy that there should be a direct relationship between pre-retirement income and income in retirement. Often the measure of the relationship is said to be that post-retirement income should be 70 per cent of gross pre-retirement income to allow continuity in the standard of living. The Commission therefore calculated the relationship between pre-retirement income net after tax at December 31, 1978 with post-retirement "available income" at January 1, 1979. This relationship is called the "net replacement ratio" throughout the discussion. The methodology for determining the net replacement ratio is described at the end of this chapter.

"Poverty Lines" as Indicators of Income Adequacy

The Commission chose to begin its study by examining minimum acceptable income levels defined by existing "poverty lines." A number of tests of adequacy that have grown up with the development of social programs have become popularly known as poverty lines, though the term "poverty" applied to them has little relationship to the approach adopted in determining the minimum level of income recommended as adequate. Here we decided to consider the better-known lines developed by four different bodies: the Canadian Council on Social Development, the Senate Special Committee on Poverty, Statistics Canada, and the Social Planning Council of Metropolitan Toronto.

The Canadian Council on Social Development (CCSD), which is a national non-government organization that promotes social policies, each year prepares "poverty line" figures based on average Canadian family income as determined by Statistics Canada.(1) The Council's approach is outlined in its Canadian Fact Book on Poverty:

> "Virtually all sources of income, e.g. interest, business profit, wages, unemployment insurance benefits, etc., are included while capital gains, inheritances, and income in kind are excluded. The income figure also represents pre-tax income. In calculating the CCSD lines, the average Canadian income figure is considered representative of a family of four (the average Canadian family size) and the poverty line for a family of four is calculated as 50 per cent of the average income figure. Adjustments are then made for different size families, on the basis of family size income units. (A family income unit is considered to be the annual amount necessary to sustain a dependent child.)
>
> "Family size adjustment is somewhat arbitrary, but is done on the basis that a family of one has three income units; a family of two has five units; a family of three has six units; a family of four has seven units; and so on."(2)

The Council's poverty line levels updated for 1978 were $4,575 annually or $381 monthly for a single person and $7,625 annually or $635

monthly for a married couple. Persons whose income falls below these levels are said to be living below the poverty line and therefore not receiving adequate income.

A second set of poverty lines has been derived by the Senate Special Committee on Poverty from a formula similar to that of the Canadian Council on Social Development except for the allowances made for income taxes paid and for changes in family size.(3) The updated 1978 poverty levels were $5,300 annually or $442 monthly for a single person and $8,840 annually or $737 monthly for a married couple. Analysis of the Senate's poverty lines indicates that they consistently work out to 56 per cent of average Canadian family income.(4)

Statistics Canada, in its low income cut-offs, also uses a "relative" approach for establishing a third poverty line, though in contrast with those of the Senate and the Canadian Council on Social Development its levels are related to expenditure rather than income. Beginning in 1961 Statistics Canada estimated that the average Canadian family spent 50 per cent of its income on basics - food, clothing, and shelter. The agency deemed that anyone spending 20 per cent more income than the average - or 70 per cent - for these basics was in straitened circumstances. Based on 1969 Family Expenditure Survey data, Statistics Canada estimated in 1973 that the average expenditure on basics had dropped from the previous 50 per cent to 42 per cent of income. As a consequence, the low income lines were dropped to 62 per cent to maintain the 20 per cent differential. The revised low income lines are updated each year for changes in the Consumer Price Index. The cut-offs vary not only with family size but are also the only lines that reflect differences based on geographical considerations (Table 1). There is clearly a wide divergence between the recorded expenditures of those who reside in large cities and persons living on farms.

Table 1
Statistics Canada Low Income Cut-offs, by Family Size and Population of Area of Residence, 1978

	Size of area of residence				
	500,000+	100,000-499,999	30,000-99,999	Under 30,000	Rural
	(Dollars)				
Single person	4,844 (404)(a)	4,534 (378)	4,403 (367)	4,050 (338)	3,520 (293)
Married couple	7,020 (585)	6,574 (548)	6,384 (532)	5,871 (489)	5,108 (426)

a Figures in parentheses are monthly amounts.

Source Statistics Canada, Consumer Income and Expenditure Division, special compilation.

With both the poverty line approach and the low income cut-off approach adequacy may or may not be relevant. The determination that anyone below a certain income is living in poverty will bear relation to adequacy only if that level of income itself is adequate. Clearly the whole method begs the question. A similar criticism may be made of the low income cut-off method; however, because it is based on expenditures it probably bears more relationship to reality than the income approach.

The fourth poverty line, which is not a poverty line at all but is considered here for convenience, is that of the Social Planning Council of Metropolitan Toronto (SPC). The SPC acts as a voluntary social planning organization in the community. Its objectives include active citizen involvement in the analysis of social issues, the development of social policy, and the planning and delivery of social services.

The SPC regularly prepares Guides for Family Budgeting and also published Budget Guide for the Elderly in 1976.(5) The Guide sought to establish a "standard of living in terms of a basket of goods, services and outlays selected according to standards of adequacy." The SPC used various committees of volunteers to select and price the items in the basket of goods and services deemed necessary for an adequate living standard. They examined in detail the cost of food, housing, clothing, health, personal care, post-retirement activities, transportation, and alcohol and tobacco. The suggested income requirements, updated for changes in the Consumer Price Index, are set out in Table 2.

Table 2
Social Planning Council of Metropolitan Toronto Income Guidelines for Selected Groups of the Elderly, 1978(a)

	Monthly income	Annually
	(Dollars)	
Male homeowner using public transportation	489.74	5,876.94
Female renter using public transportation	537.78	6,453.39
Married couple homeowners using private transportation	752.20	9,026.30
Married couple renters using public transportation	775.10	9,301.10

a Based on SPC figures at mid-point 1976 updated to January 1, 1978 for increases to the Consumer Price Index over the period.

Source Social Planning Council of Metropolitan Toronto, Budget Guide for the Elderly, October 1976, pp. 125-128.

But the budget approach has its limitations, as noted in the Guide: "The aim of the Budget Guide...is to define a standard of living and expenditure necessary to maintain physical and social well-being and a degree of individual autonomy consistent with changed

demands and expenditures in retirement....The Guide will have limited value as a budgeting tool for individual seniors. Income and expenditure records show clearly that at least half of the elderly population has incomes below semi-official poverty lines. This budget, therefore, or any other which projects expenditure above subsistence levels is bound to exceed the resources of a very large part of this population."(6)

A further qualification is that these are optimum figures developed for persons living in the largest urban centre in Ontario. We are not aware of any similar standard for those in smaller centres and rural areas where costs for some elements in the budget may be lower.

We did not find any of the so-called "poverty lines" very helpful in measuring income adequacy. The Canadian Council on Social Development and the Senate Special Committee on poverty both set their lines in relation to average Canadian family income. Arbitrarily, anyone earning less than 50 per cent of the average Canadian income, adjusted for family sizes, is considered "poor" regardless of the dollar amount of income and its purchasing power. The Statistics Canada approach, though geared to expenditures rather than income, suffers from the same arbitrary averaging in determining that a person is "poor," according to family size, depending on the percentage of income spent on food, clothing, and shelter. The Budget Guide on the other hand attempts to determine required income on the basis of need but the Social Planning Council admits that its assessment of need does not take into account actual levels of income available to many Canadians.

Other Income Maintenance Programs as Indicators of Income Adequacy

Leaving the poverty lines aside, we then inquired how base amounts for support payments were determined in other government income maintenance programs.

The Minimum Wage

One of the oldest income programs in Ontario, the minimum wage, was introduced in 1920 to provide a "living wage" for women and girls at a weekly rate of $12 based on the average minimum requirements of female workers in industry. Today, the minimum wage applies to both male and female employees; and revisions take into account cost of living changes, average hourly manufacturing earnings, minimum wages in competing jurisdictions, various "poverty lines," the state of the economy, and Ontario's competitive position.(7)

Workmen's Compensation

Established in 1914, the Ontario Workmen's Compensation program compensates workers who experience occupational injury and disease resulting in total or partial disability, for the duration of their disa-

bility. Benefits are based on 75 per cent of average weekly earnings for total disability, or the reduction in earnings for partial disability. The maximum earnings are $16,200 and the maximum rate of compensation is $233.66 per week. Earnings replacement rather than need is the criterion for this program.(8)

Guaranteed Income Supplement

This federal government program was enacted in 1966 to assist persons who would receive minimal or no CPP benefits and to relieve poverty of the elderly. The maximum supplement was originally designed to be 40 per cent of the basic OAS pension. The original OAS/GIS benefits equalled the means-tested social assistance benefits prevailing in 1967. (9) Benefits are now indexed to the cost of living. An increase implemented in 1979 was weighted in favour of the single pensioner in recognition of a greater need relative to married pensioners. The original 40 per cent ratio has now disappeared as benefits have been increased; but there does not now appear to be any stated level used in determining the adequacy of these benefits.

Unemployment Insurance

Like Workmen's Compensation the basis for this program is short-term earnings replacement, based on a proportion of previous earnings. The weekly rate of benefit is now 60 per cent of the claimant's average insurable earnings for the last 20 weeks of insurable employment. The maximum insurable earnings ($265 per week in 1979) are adjusted yearly with the percentage rise in the earnings index.(10)

Family Benefits

In Ontario, Family Benefits payments are made to needy families and individuals based on "budgetary requirements." Maximum allowances are determined, and adjustments take into account factors such as accommodation, disabilities, and family size. The maximum benefit is $520 per month for a family of four and $20 per month for each additional member except in the case of blind or disabled persons, recipients of GAINS, or residents of nursing homes.(11)

GAINS

Ontario's Guaranteed Annual Income System guarantees pensioners in Ontario a minimum level of income adequate to cover basic needs. Various poverty lines are examined to determine guaranteed income levels. These levels are increased to reflect the periodic indexing of OAS and GIS.(12)

Differences among the criteria used to set income levels in government programs show that there are many approaches to setting a level for

income adequacy. The results reflect the judgment of those who determine the factors to be considered, the weight to be given each of these factors, and the level ultimately set. Because no single criterion was found, the Commission decided to adopt an empirical approach to set an adequacy level based on all the evidence available to it. The following section gives details of the evidence we heard, our resolution of a suitable level to be achieved by government retirement income programs in 1979, and our suggestions for the establishment of one basic standard against which social assistance levels can be measured.

EVIDENCE OF INCOME ADEQUACY

In our quest for a realistic level of income from government programs, we examined representative proposals from three different sources: the Consumer Survey carried out for the Commission, the Social Planning Council for Metropolitan Toronto, and the Ontario Advisory Council on Senior Citizens. Use of their suggestions provided us with a wide perspective on the question of income adequacy. The Consumer Survey results indicated the perceptions of what income would be adequate across the Ontario population; the Ontario Advisory Council's figures were based on the experience of senior citizens; and the Social Planning Council's estimates were derived from a sociological measurement of needs. Further perspective was added by the broad range of incomes suggested in other submissions to the Commission, and in an especially pertinent brief presented by the Kap Golden Age Club of Kapuskasing, outlining expenditure patterns among its membership.

The minimum acceptable income figures proposed ranged from a low of \$320 a month for a single person, suggested by a St. Catharines woman, (13) to a high of \$824 a month for a married couple advocated by the Social Planning Council for Metropolitan Toronto.(14) The Ontario Advisory Council on Senior Citizens recommended that income from government sources alone be \$372 to \$425 monthly for a single person and \$638 a month for a married couple living together.(15) As reproduced here the amounts advocated in the briefs have been adjusted to reflect increases in the Consumer Price Index between the time of the writing of the briefs and September 1978, when the Commission's Consumer Survey was being conducted. In this way the amounts proposed by the three sources we examined in detail are comparable.(16)

Answers to the Consumer Survey represent perceptions of the Ontario public in the fall of 1978. The respondents were asked: "By today's standards, what do you feel is the minimum total monthly income that would be adequate for one person over 65 living alone and two people over 65 living together?" (Question 17a). Their responses varied from under \$200 to over \$1,500 per month for a single person, although the amounts suggested averaged \$517 per month for a single person and \$786 monthly for two people living together. The amount of income the respondents perceived as adequate differed between major areas and smaller

centres. However, as the Commission found that a regional assessment of adequacy would be too difficult to implement, our discussion deals with the province as a whole.

Three conclusions can be drawn from an analysis of these advocated amounts. First, the levels of income adequacy in the several suggestions show remarkable consistency and may therefore represent a range generally acceptable to the community at large. Second, the income figures advocated are generally higher than the "poverty lines" discussed earlier in this chapter. It will be recalled that the Budget Guide for the Elderly was a proposal based on needed expenditures rather than a poverty line. Third, the principle that a person living alone needs more than one-half of the income required by a married couple living together stands out markedly. The various income levels advocated, the poverty lines, and the relationship between the suggested requirements for a married couple living together and a single person living alone are compared in Table 3.

Table 3
Advocated Levels of Income Adequacy and Various Poverty Lines

	Single		Couple		Ratio of single to married level
	Monthly	Annually	Monthly	Annually	
	(Dollars)				(Per cent)
Consumer Survey(a)	517	6,204	786	9,432	65.8
Ontario Advisory Council on Senior Citizens(b)	399	4,782	638	7,656	62.5
Social Planning Council of Metropolitan Toronto (Renters)(c)	572	6,860	824	9,887	69.4
Senate poverty line(d)	442	5,300	737	8,840	60.0
Canadian Council on Social Development poverty line(d)	381	4,575	635	7,625	60.0
Statistics Canada low income cut-off 1978(e)	403	4,844	585	7,020	69.0

Figures rounded.
a Survey carried out in the fall of 1978.
b Figures as of the end of 1977; increased for 6.3 per cent change in the Consumer Price Index from December 1977 through August 1978. Figures for single pensioners represent the mid-point of the suggested ranges of $372 to $425 monthly and $4,464 to $5,100 annually.
c Figures from Table 2 (January 1978) adjusted for increase in the CPI of 6.3 per cent (December 1977 through August 1978).
d Updated 1978 figures. Based on 1978 average data.
e Areas with population of 500,000 and over. For other areas see Table 1. Based on 1978 average data.

The brief presented by Kap Golden Age Club containing the results of a survey of twenty-four respondents from its membership showed general agreement with the income levels advocated; it agreed that single pensioners required more income than each person in a married couple, and went one step further to provide a detailed breakdown of the kinds of expenditure that pensioners could be expected to make.(17) It is informative to quote extensively from the brief:

"In order to establish what a realistic pension should be, we carried out a confidential survey amongst our members and found the following monthly expenditures presently being incurred:

"Single Pensioner

	Low	High	Average
Accommodation (including fuel, utilities, telephone)	$ 72	$178	$125.00
Food	100	150	125.00
Clothes	15	44	29.50
Entertainment	8	40	24.00
Travel	10	120	65.00
Emergency	5	16	10.50
Miscellaneous	10	50	30.00
Total	$220	$598	$409.00

"It should be noted that the low column is unrealistic as it represents the lowest expenditure in each category in the total sampling and not any one individual for all categories; similarly the high column is higher than any one individual because it is a composite sample based on highest category figures submitted. The average undoubtedly is close to the 'real' expenditures per category and per person. This is substantiated by averaging the total expenditures of all of the results which came out to $374 monthly, thus somewhere between $374 and $409 appears to be the average required expenditure per single pensioner in Kapuskasing.

"Couples

	Low	High	Average
Accommodation	$167.50	$191	$179.25
Food	257.50	300	278.75
Clothes	60.00	100	80.00
Entertainment	30.00	75	52.50
Travel	25.00	70	47.50
Emergency	30.00	50	40.00
Miscellaneous	50.00	75	62.50
Total	$620.00	$861	$740.50

> "The average of the totals of all of the returns was $690, thus somewhere between $690 and $740.50 appears to be the average required expenditure for a couple on pension in Kapuskasing. We are of the opinion that no one should have to live on a below average subsistence, thus the average figures derived from our survey would appear to be a realistic minimum." (Brief 357)

Using the levels shown in Table 3 as guidelines for income adequacy the Commission undertook an assessment of the total amount being paid to the elderly in Ontario from government programs at January 1, 1979.

ADVOCATED LEVELS COMPARED WITH GOVERNMENT BENEFITS

Methods of Comparison

Having decided that the advocated adequacy levels should be taken as advocated levels of "available income" the Commission used two methods to compare the total of payments and benefits of existing government programs with the advocated levels.

Comparison of Dollar Amounts

The first method was simply to compare the dollar amount of "available income" now being received against the amounts advocated. The result indicates whether the principle of a minimum floor of protection is being achieved.

Net Replacement Ratio

The second method was to compare the ratio of "available income" in retirement to after-tax pre-retirement income. Available income as of January 1, 1979 was calculated by taking government program benefits (OAS, GIS, CPP, and GAINS) at that date, adding Ontario Tax Credits, and deducting income tax. The resulting amount was then compared with 1978 after-tax pre-retirement income. This method served to test whether income after retirement bore a reasonable relationship to income before retirement.

Both methods of comparison were used for a range of pre-retirement incomes that are representative of the earnings of people who rely on government programs for the major portion of their retirement income and to show differences arising from marital status. Four gross income levels were used: Level 1 represented a non-worker who received family benefits of $2,472 in 1978; Level 2, a worker who earned the minimum wage of $5,688; Level 3, a worker who earned at the year's maximum pensionable earnings under the CPP (YMPE) - $10,400; and Level 4, a worker who earned the average industrial wage (AIW) in 1978 - $13,746. Four marital status categories were considered: single; married with a spouse under age 60; married with a spouse aged 60 to 64; and married

with a spouse aged 65 or over. A full description of the method used in the calculations and of how net incomes were derived is contained at the end of this chapter. Table 4 summarizes the various advocated levels, and Table 5 shows the net replacement ratios - sixteen in all - for the several income levels and marital categories.

Table 4
Summary of Advocated Levels of Adequacy and Poverty Lines (Annual) from Table 3

Advocated Levels	Single	Couple
	(Dollars)	
Consumer Survey	6,204	9,432
Ontario Advisory Council on Senior Citizens	4,782	7,656
Social Planning Council of Metropolitan Toronto (Renters)	6,860	9,887

Poverty lines	Single	Couple
	(Dollars)	
Senate Poverty Line	5,300	8,840
CCSD Poverty Line	4,575	7,625
Statistics Canada low income cut-off (cities 500,000 and over)	4,844	7,020

Results of Comparison

Looking first in Table 5 at the Level 1 non-worker whose pre-retirement income is derived from social assistance programs, we see a dramatic rise in total dollars except in the category "married, spouse under 60" and we find high replacement ratios in all categories. From the replacement ratio one might suppose either that pre-retirement assistance is grossly inadequate or that post-retirement income is excessive. Therefore a word of caution is in order about the net replacement ratio approach: when assessing the ratios it is necessary to look at the dollar amounts. Clearly, a ratio of 150 per cent may not be "excessive" if it is based on a very low pre-retirement income.

Comparing post-retirement dollars for a single non-worker, which provide a replacement ratio of 166.8 per cent, with the lowest of the three representative minimums advocated to the Commission, $4,782 annually, we see that the single non-worker is below this level by $317 annually or $26 a month. In comparison, the married couple both age 65 with a net replacement ratio of 181.1 per cent receive an income that more than meets the lowest minimum advocated, but falls short of the other two advocated levels by more than $1,000 a year. The married couple both 65 are well above the poverty l nes discussed above except

Table 5
Net Replacement Ratios: 1979 Post-Retirement "Available Income" from Government Sources as a Percentage of 1978 Pre-Retirement Net Income(18)

	Level 1 Family Benefit Recipient ($2,472)			Level 2 Minimum Wage ($5,648)			Level 3 YMPE ($10,400)			Level 4 AIW ($13,746)		
	1978 pre-retirement	1979 post-retirement	Net replacement ratio	1978 pre-retirement	1979 post-retirement	Net replacement ratio	1978 pre-retirement	1979 post-retirement	Net replacement ratio	1978 pre-retirement	1979 post-retirement	Net replacement ratio
	(Dollars)	(Dollars)	(Per cent)	(Dollars)	(Dollars)	(Per cent)	(Dollars)	(Dollars)	(Per cent)	(Dollars)	(Dollars)	(Per cent)
Single	2,677	4,465	166.8	5,391	4,740	87.9	8,519	5,369	63.0	10,796	5,393	50.0
Married, spouse under 60	4,607	4,488	97.4	5,783	5,937	102.7	8,939	6,878	76.9	11,275	6,902	61.2
Married, spouse 60-64	4,607	7,565	164.2	5,783	7,974	137.9	8,939	8,167	91.4	11,275	8,191	72.6
Married, spouse 65 and over	4,607	8,345	181.1	5,783	8,403	145.3	8,939	8,479	94.9	11,275	8,503	75.4

for that of the Senate Committee while the single person is below all of these poverty lines.

From Table 5 we also see that except for the married couple where the spouse is under 60, the replacement ratios are lower for the worker at the minimum wage than for the non-worker, though the married couple both age 65 at Level 2 receive 145.3 per cent of pre-retirement net income, and the amount this couple receives ($8,403) meets the lowest minimum advocated and well exceeds all of the poverty lines except that of the Senate Committee. The replacement ratio for the Level 2 single worker drops below 100 per cent, and in dollar terms is below the lowest of the minimums advocated (mid-point of low range) by $42 a year or $3.50 a month. Replacement ratios for Level 3 and Level 4 workers are all less than 100 per cent in both single and married categories; but none of the dollar amounts in any of the categories, except for the couple where the spouse is under 60, falls below the lowest of the minimums advocated.

Comparing the positions of all four categories of retirees in the table we note:

- Within each income level, except Level 1 where the spouse is under 60, replacement ratios for married persons are higher than those for single persons.

- There is considerable disparity both in ratios and dollars between the incomes of married couples having a spouse under 60 and the other married couples.

- There is no consistent degree of difference among the levels between the single and married income dollar amounts or replacement ratios within an income level.

Having looked at the "poverty lines," the three representative adequacy levels advocated, the net replacement ratios of existing levels of "available income," and approaches to adequacy used by other government programs, the Commission then had to decide what would be a suitable and adequate level of income from government programs for Ontario residents 65 and over beginning January 1, 1979. The Commission recognized there might be some discrepancy between figures set for the fall of 1978 and the beginning of 1979 but was satisfied that any discrepancy would not be large enough to affect the validity of its recommended levels.

THE COMMISSION'S RECOMMENDED ADEQUACY LEVELS

The Commission found no sound basis in principle for choosing one level of adequacy from among the levels proposed. It therefore turned to the empirical evidence it had received. At the hearings and in the briefs there were no major complaints from any quarter that retired mar-

ried couples, both aged 65 or over, were in difficult straits. From Table 5 we see that except for a married couple at all levels where one spouse is under 60 and a Level 1 married with spouse 60-64, all married couples were receiving more than the levels advocated by the Ontario Advisory Council, and those represented by the poverty lines, except for that of the Senate Committee, but not as much as advocated by the Consumer Survey and the Social Planning Council. The married couple both 65 at Level 2 (minimum wage) were receiving $8,403 with a replacement ratio of 145.3 per cent. Consequently, the Commission, from the evidence available, has no reservation about accepting this level as adequate and in using this as a pivotal amount for assessing the adequacy of government programs.

At this point the relationship between single persons and married couples must be considered. Of all the government income support programs for those 65 and over only the OAS pension, which is a universal payment, treats recipients as separate and distinct individuals regardless of their marital status. In all other programs except GAINS, the marital unit is used as the basis for calculations and the single person then receives something other than half. In its assessment the Commission applied the principle that a single person requires more than one-half the amount of income required by a married couple. The reality underlying this principle is that the married couple shares accommodation and food costs. The Commission estimated the costs of a single person to be about one-sixth higher than for a spouse in the married unit.

Table 3 indicates that the ratio between minimums advocated for single persons and married couples ranges between 60 and 69 per cent, thus confirming the opinion that a single person needs more than half the amount required by a married person living in a marital unit. But in the Commission's opinion it would not be sufficient merely to assign the single person a percentage of the amount paid to a married person. Rather, we decided that the only way to guarantee that the income of a single person would not fall below an adequate level would be to start with an adequate amount specifically for the single person. Then an adequate amount for both persons of a married couple could be determined by formula from this base. However, since we were working from the pivotal figure of $8,403 for a married couple, to find a level for a single person we initially had to apply the Commission's approach in reverse and consider the result empirically. In this way we found a level produced for a single person from the pivotal figure as follows:

Married couple "available income"	$8,403 annually
Single "available income" required	
8,403/2 =	4,201.50
+1/6 of 4,201.50 =	700.25
	$4,901.75 or $408 monthly

In order to overcome the limitations of this method of determining the level of adequacy for a single person, we assessed the adequacy of

$4,902 for a single person against the three advocated levels. This step was particularly important in the light of considerable evidence that single persons aged 65 and over, of whom the majority are women, were not receiving sufficient income. From Table 4 we see that $4,902 is above all the recommended levels proposed by the Consumer Survey and the Social Planning Council; it is also above the poverty lines except for that of the Senate Committee, and is at the top of the range shown in the Kapuskasing survey. $4,902 is 58 per cent of the married couple's $8,403. Had we taken a 60 per cent ratio the single amount would have been $5,042 or $420 monthly. The range is such that the Commission on empirical grounds accepted $4,902 as a minimum with 60 per cent as a ratio which could be utilized in future assessments. In summary, therefore, the Commission decided that $4,902 annually, or $408 monthly, represented an adequate level for a single person. The Commission concluded that adequate levels of "available income" at January 1, 1979 for those 65 or over in Ontario from government programs are:

	Monthly	Annually
Single person	$408	$4,902
Married couple both 65	700	8,403

Applying the Commission's Recommended Adequacy Levels

Using these levels to assess the adequacy of actual "available income" as shown in Table 5, we found that there is a need to increase the amounts now being received by single persons at both non-worker and minimum wage levels and also the amount for the non-worker married couple, both of whom are over 65. At all the other income levels, government programs provide more than our adequacy levels for both single persons and married couples both aged 65.

There are some anomalies, however, among the married couple categories. For example, benefits paid to persons aged 65 with spouse under age 60 and to persons aged 65 with spouse age 60-64 did not reach the $8,403 we have adopted as the adequacy standard for a married couple both 65; though for Level 1 and Level 2 workers, the net replacement ratios were well over 100 per cent in these categories with one exception. There are three major reasons for the differences among the married categories. First, when both are aged 65, both spouses receive OAS and have increased income tax exemptions that can be transferred from spouse to spouse, thus reducing tax payable and increasing their "available income." Second, the Spouse's Allowance program provides special payments for a low-income pensioner whose spouse is between 60 and 65 so that couple may receive the equivalent of the OAS/GIS for the couple aged 65, though their "available income" will be lower since they cannot yet benefit from the age exemption for income tax purposes. Third, for the person with a spouse below age 60, the design of the Old Age Security

programs assumes either that the spouse will be in the work-force or that income supplementation comes from other social assistance programs.

The Commission has some reservations about the differentials created by the Spouse's Allowance. The program has often been attacked for the unequal treatment of unmarried and widowed persons aged 60 to 64 compared with those in the same age group having spouses 65 and over. Some consideration should also be given to the differences in benefits paid to the latter group and the person aged 65 whose spouse is below age 60. Looking at these three categories in terms of income adequacy, there seems no logic on which to base the present distinctions. We can only suggest that the Spouse's Allowance may have been conceived to remedy the inequities and, like so many patchwork measures, has only created more. Thus, the Commission favours a phasing out of the Spouse's Allowance program to eliminate the inequities between married persons and unmarried persons between 60 and 65, and between the married couples eligible for the Spouse's Allowance and the couple in which one partner is over 65 and the other is below 60. The problem of need for all persons under 65 would then be handled by other social assistance programs.

Another anomaly is that the income from government programs for the Level 1 married couple with spouse under 60 amounts to less than what we consider adequate for a single person at age 65. Consistency would seem to require an increase in benefits for this marital category. However, we believe there is some justice in expecting that the spouse under 60 will be in the work-force and that the income shown for the unit is actually understated. Granted, the single person is probably relatively better off than the married person with a spouse under age 60 who benefits only from additional exemptions from income tax. But the Commission believes this situation reflects the usual difference between a single worker and a married worker whose spouse does not work, and does not recommend altering this relationship.

A further question in our consideration of income adequacy is whether there should be some constant relationship between replacement ratios for single and married people. Looking again at Table 5 we see that the married couple both aged 65 whose pre-retirement income was at the AIW (Level 4) has a 75.4 per cent replacement ratio, while the single worker at that level has a ratio of only 50 per cent. It is here that the usefulness of the net replacement ratio approach breaks down. It would be fallacious to assume that the single worker should also have a replacement ratio of 75.4 per cent, since in dollar terms he would then receive an amount far above the minimum standard for adequacy. On this basis there is no useful relationship between replacement ratios for single and married persons. Nor is there any reason to consider the relationship of income among the single persons at various wage levels or among the married units with different wage levels.

A special problem arises when the replacement ratios exceed 100 per cent. Table 5 shows that married couples both 65 who were family bene-

fit recipients (Level 1) before they became eligible for Old Age Security have much more "available income" in retirement (181.1 per cent). Similarly, the married couple both 65 whose previous earnings were at the minimum wage level have higher "available income" (145.3 per cent). But some of the figures for married units are misleading, since at age 65 a formerly non-earning spouse becomes entitled to an Old Age Security pension, thereby adding greatly to family income at the lower levels and in turn pushing up the ratio. We believe that society agrees that replacement ratios for those at lower income levels should be higher than for those at higher income levels. It also seems to be accepted that ratios approaching 100 per cent for those with low incomes are proper, even allowing for reduced expenditure after retirement for transportation, food, and clothing. However, the question remains whether there is justification for a benefit structure that will produce benefit ratios of more than 100 per cent.

From our study we have learned that age 65 represents a benchmark for government programs and a demarcation in social attitudes.(19) Most government programs, as well as many private schemes, come into effect when a person reaches that age. At that time as well, any vestiges of stigma that may attach to welfare and government support vanish as society expresses its desire to provide a basic income for all at 65 whether worker or non-worker. Indeed, some argue that seniors should receive more. For example, 76.6 per cent of respondents in the Consumer Survey believed that "government assistance to people over 65 years of age should be increased."

The difficulty with this notion is that it fails to recognize that needs and the ability to fulfil them will continue to vary among this group just as they did before the "magic" age of 65. In addition, the Ontario Association of Professional Social Workers has sounded a warning note about the divergence in treatment for those 65 and over and those who are younger, contrasting as a case in point the position of the "working poor":

> "Elderly persons in Ontario do not merely obtain financial support. They also receive membership in the Ontario Hospital Insurance Plan (OHIP) without payment of premiums; they receive a variety of prescription drugs without direct payment; and they may receive transportation, recreation, and other personal services at reduced or little cost.
>
> "Social workers would in no way wish to denigrate the benefits that accrue to needy retired persons, particularly those beyond the age of 65. Nevertheless, we are painfully aware of the fact that the amounts of money are well beyond the total family income of many families where one or both parents are working to support themselves and one or more dependent children. These members of the group known as the 'working poor' often earn less than the aforementioned $7,200 per annum,(20) particularly if a principal wage

earner is at the minimum wage in Ontario, which is now $2.65 per hour.(21) Moreover, the families of the 'working poor' do not receive free membership in OHIP without direct payment (unless they are fortunate enough to be members of a group that has a collective agreement whereby the employer pays all or part of the required premiums). Certainly they do not receive prescription drugs without payment or other services mentioned previously at reduced costs.

"It is not argued that discrimination exists on behalf of low income pensioners or retired persons because, we repeat, we have no wish to reduce their relatively adequate circumstances. Nevertheless, a serious element of inequity has been introduced into the income structure of large numbers of Ontario residents and we would contend (although it may be beyond the terms of reference of the Royal Commission) that it is the 'working poor' whose financial and other support services must be strengthened. We would argue further that the present situation creates feelings of antagonism toward pensioners and retired persons in Ontario. The possibility of a 'backlash' directed against retired persons is surely a matter of concern for the Commission."(Brief 136)

In setting its adequacy levels the Commission has been mindful of just this sort of potential criticism. We believe that the levels we recommend for 1979 are not so generous as to encourage individuals to adopt a course that will leave them dependent on government programs alone. We do not find net replacement ratios excessive merely because they exceed 100 per cent. As we have pointed out, there are limitations to the usefulness of the net replacement ratio approach. In areas where the replacement ratios are very high, use of an absolute dollar assessment shows that the amounts of "available income" are not out of line. However, there should be some consistency through all government assistance programs both before and after age 65. There are a number of other government programs in Ontario such as Family Benefits and Workmen's Compensation which, like programs for senior citizens, are based on a perceived standard of adequacy. It is the Commission's belief that all government programs should tend towards the adoption of one standard of adequacy. When considering mimimum adequacy we can see no justification for different levels for those 65 and over and those under 65. The "poverty lines" discussed earlier do not make any such distinction. The Social Planning Council, however, specifically directs its budgeting to those 65 and over and establishes its recommended levels for adequacy on this basis. The Commission is not convinced that the needs of those 65 and over are so different from those under 65 that a different set of adequacy levels is required. A standard suitable for determining adequacy levels should apply to all types of beneficiaries and should reflect economic conditions affecting all the people of Ontario at the time that standard is applied.

A STANDARD OF ADEQUACY

Throughout our assessment of adequacy of benefits from government programs in this chapter we have discussed "levels" of adequacy and have shown how the Commission arrived at a "level for adequacy" it could recommend for assessing benefits being paid at January 1, 1979. This level is our judgment based on empirical evidence of what is adequate in Ontario today. In contradistinction to this "level" we found no "standard" of adequacy now being used which was suitable now or for the future. Judgments based on empirical evidence are useful to keep in touch with reality but something more easily and quickly available is required for overall government policy decisions. As already mentioned, the rationale for setting levels of various government benefits reveals a lack of any consistency or standard. Having considered a number of alternatives, the Commission commends to the government the minimum wage as a suitable standard of adequacy. It is the one standard we have found that specifically takes into account the means a person must have to live in Ontario society.

The Minimum Wage as a Standard of Adequacy

The minimum wage is particularly suited to be the basis for determining the levels of government support programs: it is based on standards of adequacy for people living in Ontario; it reflects economic conditions in the province; and it is subject to the direct scrutiny of the Legislature, which can alter the rate in response to public pressure. An empirical level such as we set could be adjusted to the Consumer Price Index in the short run, but over time it will fall behind in terms of productivity; therefore a standard of some type is preferable.

The Honourable Bette Stephenson, then Minister of Labour, explains how the government determines the minimum wage level in Ontario:

> "Present-day minimum wage revisions are made whenever it is considered that increases in the cost of living have caused excessive deterioration in the real income of low-wage workers.
>
> "Average hourly manufacturing earnings in the province are examined, as are minimum wages in other competing jurisdictions and the level of benefits for which individuals and families would be eligible under the general Welfare Assistance programme. Various agencies' 'poverty lines' are also studied to note their relationship to the minimum wage. More general considerations, such as the state of the economy, the possible effects on Ontario's competitive position, and special requirements of certain industries in the province, all play a role in the development of minimum wage levels. No specific 'formula' is used in the calculation of a rate for recommendation to Cabinet, but the recommendation is based on the combined evidence of all these indicators."(22)

The minimum wage was originally a weekly rate that varied by geographic zones based on population density. By January 1969 the zones had been dropped and the minimum wage was stated as an hourly amount. Taking the most populous zone and recasting all figures on an hourly basis we find the minimum wage in Ontario has increased from $1 in 1963 to $3 in 1979:

June 30, 1963	$1.00
January 1, 1969	1.30
October 1, 1970	1.50
April 1, 1971	1.65
February 1, 1973	1.80
January 1, 1974	2.00
October 1, 1974	2.25
May 1, 1975	2.40
March 15, 1976	2.65
August 1, 1978	2.85
January 1, 1979	3.00

For the same period during which the minimum wage has tripled, the rise in consumer prices has reduced the purchasing power of the dollar to something less than half its former value. The minimum wage has thus reflected productivity gains as well as cost-of-living increases.

Application of the Minimum Wage

If we were to use the minimum wage as the standard of adequacy, how would the results compare with present levels paid to the elderly by government programs? It is absolutely essential to note that, while the minimum wage is a gross income amount, our recommendations are concerned with a standard for "available income." The resultant figures should be interpreted as the amounts of "available income" required from government payments to ensure income adequacy, and not as the gross income needed to meet that standard.

In the use of this standard, other benefits must be taken into account in the same way as for the net replacement ratio analysis. The single person should not receive the adequacy income for the year determined from the adequacy standard in gross payments from OAS, GIS, and GAINS, but should instead receive this amount in combined "available income" from the government programs, the additional benefits from Ontario Tax Credits, and income tax savings from age-related exemptions.

Applying the minimum wage as an adequacy standard we would assume that each person at 65 was entitled to a replacement percentage of the minimum wage of say 70 per cent(23), and that a single person would require, in addition, a food and shelter allowance equivalent to one-sixth of the married rate. As of January 1, 1979, the minimum wage in Ontario was $3 an hour. The number of hours taken to constitute a normal year by Statistics Canada is 2,080. Thus a person working a full year at the

minimum wage would earn a gross income of $6,240. Using $6,240 as the base for determining the minimum level of income adequacy the Commission's formula would work out as follows:

<u>70 per cent replacement gross pre-retirement income</u>

Married couple, both age 65	2 x $6,240 = $12,480 70 per cent of $12,480 = $8,736 or $728 monthly
Single person age 65	1/2 of $8,736 = $4,368 + 1/6 of $4,368 = 728 $5,096 or $425 monthly

The resulting levels are above those advocated by the Ontario Advisory Council on Senior Citizens. They are also higher than the empirical level determined by the Commission for January 1, 1979 though still below the levels recommended by the Social Planning Council of Metropolitan Toronto and by the respondents in the Consumer Survey, and below the Senate Committee's poverty line. However the Commission considers the level determined empirically for January 1, 1979 adequate and would not move to a minimum wage standard at this time. We merely commend its use on some basis in establishing a future standard of adequacy for all social assistance programs in Ontario.

While the minimum wage seems suitable in many ways for this purpose, some adjustments may be necessary. We would have to recognize, for instance, that the minimum wage does not rise in step with the Consumer Price Index year by year. Therefore, some consideration would have to be given to making interim adjustments to the adequacy standard from time to time in line with increases in the Consumer Price Index. This does not mean that the minimum wage itself need be adjusted, but merely that the adequacy standard based on it could increase independently until such time as the minimum wage was changed and a new income standard could be set. In this way, no undue pressure need be exerted to increase the minimum wage merely to reflect a need for increasing the adequacy standard because of high rates of inflation, though presumably similar pressure would be exerted to raise the minimum level for labour-related reasons.

It may be that the adequacy standard should not increase automatically either with changes in the Consumer Price Index or the minimum wage. If the minimum wage were adopted as the basis for determining an adequacy standard, any increase in the standard could be the subject of government assessment based on a balance of economic and social factors affecting the province at the time the standard is to be changed. For example, the position of social assistance programs in relation to the minimum wage could be monitored, and action taken to increase the levels of social assistance only when they fell below the minimum wage by a

certain percentage. In setting the base for social programs care must be taken to consider carefully just how much of the Gross Provincial Product can be allocated to the needs of those requiring assistance. Use of the minimum wage as the base for an adequacy standard would help to avoid the danger of setting levels in isolation from economic realities.

DETERMINING ELIGIBILITY FOR GOVERNMENT BENEFITS

Some problems remain after a standard of adequacy has been determined. One area that requires particular scrutiny is that of eligibility for benefits. While the OAS is a universal payment for those aged 65, other government programs are income-tested and are intended to provide a degree of income adequacy. Some of the current regulations allow inequities to creep into the system. For example, in assessing eligibility for the Guaranteed Income Supplement from the previous year's income, every source as defined by the Income Tax Act is totalled except for amounts received from government social welfare programs, certain gifts, and a few other specific benefits listed in our earlier discussion of the GIS program.(24) Similar income sources are excluded in assessments of eligibility for GAINS.(25) The difficulty is that the exclusion of some benefits - in particular, Workmen's Compensation payments, family allowances, and war veterans' pensions - results in an understatement of actual "available income" to such an extent that the whole idea of a base or floor income for those in need is undermined.

Serious inequities exist, for example, between persons who are receiving the full Guaranteed Income Supplement and GAINS, and those who receive, in addition to these benefits, a Workmen's Compensation pension. Based on the current $16,200 earnings ceiling under the Ontario Workmen's Compensation Act, the maximum compensation is now $233.66 per week, or $12,150 annually. These payments are designed as income replacement and therefore, in terms of "available income" provided by taxpayers and by employers through contributions to the fund, there is an unnecessary duplication of social payments. Coupled with the fact that Workmen's Compensation payments are not taxable as income, the situation of a person aged 65 on full Workmen's Compensation is well out of line with our social goal of adequacy.

Table 6
Gross Income from Government Old Age Assistance Programs and Workmen's Compensation Maximum Benefit

	Single pensioner	Married both 65
	(Dollars)	
OAS	2,006	4,013
GIS	1,647	2,740
GAINS	467	1,248
WCB	12,150	12,150
Total	16,270	20,151

Because these payments seem to us to be excessive we are of the opinion that governments should take action to see that these double payments are stopped. Public monies intended to provide for the basic needs of a person should not be wasted in duplication of benefits. We appreciate that there will always be some leakage to undeserving persons in any social security system, but we consider that the exclusion of Workmen's Compensation payments, Family Allowances, and War Veterans Pensions from income tests creates unnecessary double payments and places a needless burden on the taxpayer. This situation points up the danger of a complex system of social security that does not have one underlying principle for determining benefits. We also realize that much of the administration of the social security system falls within federal jurisdiction, but we believe that the Province of Ontario has sufficient bargaining power to take some action towards stopping underlying inequities in the system. While it might be preferable to rationalize social security programs throughout Canada, Ontario is in a position to make specific changes now through its GAINS system.

ADJUSTMENT THROUGH THE GAINS PROGRAM

The GAINS program was discussed in detail in Chapter 5. Here we consider the role of GAINS in accomplishing the two goals the Commission sees as essential for the improvement of government assistance to those 65 and over:

- To redress the present inequity between single and married persons by acknowledging that a single person living alone requires more than one half of the amount required by each person in a married unit.

- To raise the levels of assistance now being paid from government programs to the level of adequacy perceived necessary to live in Ontario.

In its deliberations that led to the choice of GAINS as the vehicle for attaining these goals, the Commission examined two other possible alternatives: raising OAS pensions or increasing GIS payments. Both would involve federal-provincial negotiations. The former was rejected on the grounds that this approach would do nothing to solve the inequitable situation faced by single pensioners and would be a wasteful approach to guaranteeing income adequacy, since no needs test for eligibility for payment would be required. The Commission also decided that the second approach would be inappropriate, though conceding that the GIS program has now attempted to recognize the higher income needs of the single pensioner.(26) If the adequacy level proposed by the Commission reflects a proper level for the whole of Canada we would prefer to see payments increased for all eligible Canadians, as it could be unwise to create too large disparities among the levels set in the various provinces. However, five of the other provinces have already

adopted legislation similar to GAINS; therefore it may be this is the preferred approach in light of differing standards of living among the provinces and differing resources available for social programs.(27)

In the end, increasing GAINS benefits seemed to the Commission to be the most efficacious way of guaranteeing income adequacy for those aged 65 and over in Ontario. This approach is entirely within the control of the provincial government and could therefore be instituted without undue delay and complications. It also can be linked to general economic conditions in Ontario and to the levels provided by other social assistance programs in the province.

In addition, the GAINS program - whose benefits are on top of the federal OAS and GIS payments to make up a higher minimum income level in the province - has responded to the January 1979 increases in GIS by allowing a single person a higher maximum income than is paid to each person in a married couple.

For persons 65 and over living in Ontario the Commission has recommended an empirical level of income adequacy for 1979 of $4,902 for a single person and $8,403 for a married couple both aged 65. Where total payments from government programs adjusted to "available income" are now lower than these levels, GAINS should be increased to bring those payments up to the adequacy level. While the adequacy level is based on "available income" and GAINS is paid in gross dollars, adjustments have already been made for the gross dollars of existing payments in the government programs in setting the adequacy level; hence, the differences between the levels in Table 7 are the actual amounts by which GAINS payments would have to be increased to meet the adequacy level requirements in 1979.

Table 7
GAINS Makeup to Adequacy Level for a Single Person and a Married Couple Both 65 Retiring at the Minimum Wage Level, January 1979

	Commission's Adequacy level		"Available income" from combined government programs		Deficiency to be made up by GAINS	
	Month	Year	Month	Year	Month	Year
			(Dollars)			
Single person	408	4,902	395	4,740	13	162
Married couple	700	8,403	700	8,403	-	-

The effect of increasing the GAINS payments by setting a new guaranteed amount to meet the "available income" level recommended for the single person at the minimum wage will affect the amounts for all the single persons at the different wage levels in Table 5. But while the income of the single non-worker (Level 1) will rise, it will still be below the adequacy level. This raises the question of whether all per-

sons 65 and over should be raised to the Commission's adequacy level by payments from the government programs comprising OAS, GIS, CPP, and GAINS.

One could argue that GAINS should be increased by an extra amount for the Level 1 non-worker so that he or she would receive "available income" of $408 monthly. Immediately we are faced with the problem that the worker retiring at the minimum wage will be receiving less from government programs than the non-worker. It then becomes a question of lost incentive to work and of the backlash cautioned against by the Ontario Association of Professional Social Workers. The Commission notes that the same problem of being below the minimum floor of adequacy will arise for persons not eligible to receive full OAS payments. Under the new requirements, a person resident in Canada for only 10 years prior to qualification will receive only a quarter of the OAS payment; although entitled to full GIS, the total available, including GAINS and other benefits, will not give the recipient the level of "available income" the Commission has determined is adequate. The answer society has already given for this situation is reliance on the family benefits program and subsidized housing. In the Commission's opinion the same answer is the correct one for the Level 1 non-worker. The Commission cannot endorse the notion of an absolute entitlement to an adequate level of "available income" from specific retirement income programs merely by the attainment of age 65. The overriding goal is that no person in Ontario should be expected to live on less than an adequate amount of "available income." The sources from which such "available income" is derived are secondary.

COST CONSIDERATIONS

In December 1978 there were 94,577 single persons and 12,194 married couples receiving the maximum range payments under GAINS.(28) The total cost of the GAINS program in 1978 was $101.8 million. The course suggested by the Commission will add to this cost not only by increasing the amounts for those already at the maximum, but also by adding to the amounts now being received by those eligible for only partial payments. Because of the difficulty in calculating partial payment levels, the Commission did not undertake the extensive work involved in making estimates for the increased costs, but there undoubtedly will be an increase in cost that will not be welcome in a time of government spending restraint. However, savings and cost offsets can be worked out if a comprehensive social assistance system is implemented in the province to replace the existing piecemeal approach to social assistance. The following factors should be considered in any discussions of the cost implications:

- As noted above, the balance of the evidence brought before the Commission indicated that the $8,403 being received by married couples where both are 65 is an adequate income. Therefore, it

would not be necessary to adjust the GAINS maximum for those married couples at the present time. Available resources could be directed towards bringing the single person up to the adequacy level.

- Increases or extensions to all programs for those 65 and over not directly related to need - for example, free OHIP, free drugs, subsidized transportation, and Ontario Tax Credits - should be vigorously resisted.

- Many briefs recommended elimination of education taxes assessed against real property owned by those 65 and over. An extension of this kind should not be undertaken as it is not based on need. If housing assistance is to be given, an adaptation of the Shelter Aid for Elderly Renters sponsored by the Province of British Columbia should be considered.

- New programs to assist persons only because of their chronological age and without regard to need should not be undertaken.

- Figures for income of the elderly determined from taxation statistics are misleading in that payments from GIS and GAINS are not included in determining income for tax purposes. If Ontario wishes to obtain accurate information on the income of the elderly, a declaration of all income including, for example, GIS, GAINS, Workmen's Compensation, War Veterans' Pension, and housing subsidies could be required with the application for Ontario Tax Credits.

- Eligibility requirements for programs that provide benefits on the basis of need should take into account all income. The elimination of double payments because of the exclusion from income calculations of, for example, Workmen's Compensation would lead to considerable savings that could be reallocated to GAINS.

- If eligibility for programs is to be determined on the basis of need, consideration should also be given to including benefits from certain types of assets. The Consumer Survey showed that 65 per cent of the respondents of all ages planned on a personally owned house as a source of income in retirement.(29) This indicates that ownership of a house constitutes a valuable benefit for the persons in retirement that is not available to a person in non-subsidized rental accommodation, and some notice should be taken of this benefit in determining eligiblity. As a corollary, the concept of a lien for benefits received similar to that under the Municipal and School Tax Credit Assistance Act, to be charged against the house and paid at death, might be considered.

- Again, when benefits are received by some on the basis of need rather than by all those over 65, such as for subsidized housing or any other subsidy, consideration should be given to including such benefits in income calculations. Those now receiving a housing subsidy are much better off in terms of their available income than those who do not.

- Revision of the Income Tax Act - at the federal level or at least at the Ontario level - to include items now excluded for determining income should be sought. Revenue lost on payments made under the Workmen's Compensation Act, War Veterans' Pensions, and other programs, would then be recouped and could be reallocated to GAINS.

- As higher benefits become available to those 65 and over from the GAINS program, the Family Benefit rolls will be reduced and savings will accrue to that program. There were still 2,039 women 65 and over, and 1,481 men 65 and over, receiving assistance from this source in October 1979.(30) Even if there is little to be realized in net savings, costs will not be increased by the shift.

- Total payments from GAINS have been decreasing as the Canada Pension Plan matures, and should resume their downward trend once the recommended increases have been absorbed.

- There will be benefits for the future in redesigning other government programs so that those in need will be adequately protected and those who are not will be encouraged to use their own resources for retirement.

CONCLUSIONS

Deliberations in setting a level of income adequacy for the elderly in Ontario have led the Commission to three general conclusions. First, there should be some well-defined standard for determining the adequacy of all Ontario government income assistance programs regardless of age. Second, the standard of adequacy should be stated in terms of "available income," defined as after-tax dollars plus other additional monetary benefits, since gross amounts are misleading. Third, the minimum wage could provide a suitable standard for establishing adequate "available income" levels in the future.

In the absence of any established standard of adequacy, the Commission has concluded from the evidence that, as of January 1979, a single person required "available income" from government programs of $4,902 annually or $408 monthly; and that a married couple, both 65 or over, required $8,403 annually or $700 monthly. Appropriate levels may be calculated for January 1980 by applying an adjustment of 9.5 per cent to

account for the increase (January-January) in the Consumer Price Index. The new "available income" levels then would be: for a single person, $5,368 annually or $447 monthly; and for a married couple both 65 or over, $9,201 annually or $767 monthly. Where the income of persons 65 and over falls below these adequacy levels, GAINS payments (or Family Benefits in some cases) should be increased to achieve these levels. All types of income should be included for determining eligibility for the government programs, and value should be attributed to some non-income assets for this purpose.

NET REPLACEMENT RATIOS: METHODOLOGY

The Commission retained Coopers and Lybrand, chartered accountants, to prepare comparisons of net income before and after retirement to ascertain the replacement ratio of pre- to post-retirement net income in Ontario for 1978 and 1979. The following data and assumptions were used in the calculations:

- Pre-retirement income in 1978
  Post-retirement income in 1979
  Date of retirement was January 1, 1979

- Four categories of tax filers without dependents were used in the post-retirement year: a single individual aged 65 (1979), a married person aged 65 (1979) with a spouse under age 60, a married person aged 65 (1979) with a spouse between ages 60 and 65, and a married person aged 65 (1979) with a spouse also aged 65.

- Pre-retirement gross income

  The 1978 gross income for each of these four categories was calculated for four levels of income:

  Level 1 includes non-workers whose gross income, based on the maximum payable to those classified as "unemployable" (not disabled) under the Family Benefits Act, was $206 per month for a single person and $365 per month for a married couple, or $2,472 and $4,320 annually, respectively.

  Level 2 represents workers who earn the minimum wage. Their gross income of $5,688 was based on the minimum wage in Ontario; that is, $2.65 per hour to the end of July and $2.85 per hour for the remainder of 1978.

  Level 3 workers were at the Year's Maximum Pensionable Earnings (YMPE) level. Their gross income (1978 YMPE) was $10,400.

Level 4 workers were paid the average industrial wage (AIW). Their gross income of $13,746 was based on the average Ontario Industrial Composite figures from January 1978 to September 1978; for the October to December 1978 period an estimate was made using preliminary figures.

- Post-retirement gross income

For each tax filer and each income level, we calculated the amount of Old Age Security (OAS), Canada Pension (CPP), Guaranteed Income Supplement (GIS), Spouse's Allowance, and Guaranteed Annual Income Supplement (GAINS) that would be payable. Residency requirements were assumed to be fulfilled. Canada Pension benefits assumed that each retiree contributed for the lifetime of the plan and that earnings bore the same relationship to YMPE throughout the contributory period as they did in 1978. We assumed there was no private pension income or any other income for either spouse. Gross pre- and post-retirement income figures for workers in each of the categories are shown in Tables 1 to 4.

Inflation

We accounted for inflation by expressing all amounts in terms of January 1979 dollars. Thus, although OAS, GIS, and Spouse's Allowance are indexed quarterly, we assumed that the January 1979 payments remained the same. In this way the 1978 and 1979 dollars are comparable.

Net Income

To determine net income, the accountants were instructed to apply actual tax calculations for employed persons (not self-employed) using all basic personal exemptions, married exemption, standard medical exemption, and age exemption as applicable.

OHIP premiums of $228 annually for a single person and $456 annually for a family were deducted from gross income in 1978. Premium assistance was assumed for the non-worker. OHIP premiums were not included in the 1979 figures, as persons over 65 (and couples where one spouse is 65) are exempted from making payments.

For the calculation of property and sales tax credits we assumed rental payments were one-third of gross earnings in 1978. Rental costs were assumed to be 6 per cent higher in 1979 than in 1978 in line with rent control regulations.

The Unemployment Insurance retirement benefit was not included.

Table 8

Gross Pre- and Post-Retirement Income at Four Income Levels, Single Pensioner Aged 65

	Pre-retirement annual income	Post-retirement income, annual and monthly				
		OAS	CPP	GIS	GAINS	Total
	(Dollars)			(Dollars)		
Level 1 Family Benefit(a)	2,472.00	2,006.52 (167.21)	-	1,647.36 (137.28)	466.56 (38.88)	4,120.44
Level 2 Minimum wage	5,688.00	2,006.52 (167.21)	1,420.92 (118.41)	939.36 (78.28)	-	4,366.80
Level 3 YMPE	10,400.00	2,006.52 (167.21)	2,616.72 (218.06)	339.36 (28.28)	-	4,962.60
Level 4 AIW	13,746.00	2,006.52 (167.21)	2,616.72 (218.06)	339.36 (28.28)	-	4,962.60

a Assumed unemployable under Family Benefits Act, not disabled.

Table 9

Gross Pre- and Post-Retirement Income at Four Income Levels, Married Pensioner Aged 65 with Spouse under 60

	Pre-retirement annual income	Post-retirement income, annual and monthly				
		OAS	CPP	GIS	GAINS	Total
	(Dollars)			(Dollars)		
Level 1						
Family Benefit(a)	4,380.00	2,006.52	-	1,647.36	466.56	4,120.44
		(167.21)	-	(137.28)	(38.88)	
Level 2						
Minimum wage	5,688.00	2,006.52	1,420.92	1,647.36	466.56	5,541.36
		(167.21)	(118.41)	(137.28)	(38.88)	
Level 3						
YMPE	10,400.00	2,006.52	2,616.72	1,503.36	322.56	6,449.16
		(167.21)	(218.06)	(125.28)	(26.88)	
Level 4						
AIW	13,746.00	2,006.52	2,616.72	1,503.36	322.56	6,449.16
		(167.21)	(218.06)	(125.88)	(26.88)	

a Assumed unemployable under Family Benefits Act, not disabled. Figures do not include any family benefits for non-pensioner spouse.

Table 10
Gross Pre- and Post-Retirement Income at Four Income Levels, Married Pensioner Aged 65 with Spouse Aged 60-64

	Pre-retirement annual income	Post-retirement income, annual and monthly					
		OAS	CPP	GIS	SA	GAINS	Total
	(Dollars)	(Dollars)					
Level 1							
Family Benefit(a)	4,380.00	2,006.52	-	1,369.80	3,376.32	466.56	7,219.20
		(167.21)	-	(114.15)	(281.36)	(38.88)	
Level 2							
Minimum wage	5,688.00	2,006.52	1,420.92	1,369.80	2,332.32	466.56	7,596.12
		(167.21)	(118.41)	(114.15)	(194.36)	(38.88)	
Level 3							
YMPE	10,400.00	2,006.52	2,616.72	1,369.80	1,432.32	322.56	7,747.92
		(167.21)	(218.06)	(114.15)	(119.36)	(26.88)	
Level 4							
AIW	13,746.00	2,006.52	2,616.72	1,369.80	1,432.32	322.56	7,747.92
		(167.21)	(218.06)	(114.15)	(119.36)	(26.88)	

a Assumed unemployable under Family Benefits Act, not disabled.

Table 11

Gross Pre- and Post-Retirement Income at Four Income Levels, Married Pensioners Aged 65

	Pre-retirement annual income	Post-retirement income, annual and monthly				
		OAS	CPP	GIS	GAINS	Total
	(Dollars)			(Dollars)		
Level 1						
Family Benefit(a)	4,380.00	4,013.04	-	2,739.60	1,248.24	8,000.88
		(334.42)	-	(228.30)	(104.02)	
Level 2						
Minimum wage	5,688.00	4,013.04	1,420.92	2,043.60	552.24	8,029.80
		(334.42)	(118.41)	(170.30)	(46.02)	
Level 3						
YMPE	10,400.00	4,013.04	2,616.72	1,443.60	-	8,073.36
		(334.42)	(218.06)	(120.30)	-	
Level 4						
AIW	13,746.00	4,013.04	2,616.72	1,443.60	-	8,073.36
		(334.42)	(218.06)	(120.30)	-	

a Assumed unemployable under Family Benefits Act, not disabled.

NOTES

(1) Statistics Canada, Income Distributions by Size in Canada, Cat. 13-207.

(2) Canadian Council on Social Development, Canadian Fact Book on Poverty, Ottawa, 1975, p. 9.

(3) Ibid., p. 10.

(4) Ibid., p. 10.

(5) Social Planning Council of Metropolitan Toronto, Budget Guide for the Elderly, Toronto, 1976.

(6) Ibid., p. 2.

(7) Letter to the Royal Commission from the Hon. Bette Stephenson, Minister of Labour, July 31, 1978.

(8) The Hon. Bette Stephenson, in a statement to the Ontario Legislature June 19, 1978.

(9) Letter to the Royal Commission from the Hon. Monique Begin, Minister of National Health and Welfare, October 12, 1978.

(10) Letter to the Royal Commission from Office of the Ministries of Employment and Immigration, the Hon. Bud Cullen, August 11, 1978.

(11) Telephone conversation with Director of Benefits and Family Benefits Act Regulations.

(12) Letter to the Royal Commission from Frank S. Miller, Treasurer of Ontario, September 24, 1978.

(13) Mrs. Isabel Finch, Hamilton hearings, April 18, 1978, $300 to $350 monthly.

(14) Brief 189. Budget Guide for the Elderly, with figures indexed to the Consumer Price Index to produce a September 1, 1978 equivalent.

(15) Brief 154, p. 16 and following.

(16) Consumer Price Index increase 8.9 per cent for the year 1978. Figures rounded.

(17) The survey was carried out in the last week of March and the first week of April 1978.

(18) Full details of the method used for the calculations are in Appendix A.

(19) As indicated elsewhere in the report, the commissioners question the validity of this change of attitude at age 65 insofar as it results in unneeded benefits that are provided solely because of chronological age.

(20) The amount to which a married couple, both 65 without other income, would be entitled in Ontario in 1977.

(21) Figure before August, 1978. The minimum wage in Ontario, as of January 1, 1979, is $3.00 an hour.

(22) Letter to the Royal Commission from the Honourable Bette Stephenson, Minister of Labour, July 31, 1978.

(23) The 70 per cent ratio is one often accepted in pension design to allow for absence of costs related to being in the work-force and lower income tax on reduced income, while maintaining a continuity in living standard. A 65 per cent ratio would result in figures below the Commission's empirical level of adequacy for 1979.

<u>65 per cent replacement of gross pre-retirement income</u>

Married couple, both age 65		2 x $6,240 = $12,480 65 per cent of $12,480 = $8,112 or $676 monthly
Single person	1/2 of $8,112 =	$4,056
	+ 1/6 of $4,056 =	676
		$4,732 or $394 monthly

(24) See Chapter 5.

(25) Ibid.

(26) GIS increased at January 1, 1979 by $20 for a single person and $10 to each of a married couple.

(27) British Columbia, Alberta, Nova Scotia, Manitoba, and Saskatchewan. For details see GAINS, background paper.

(28) Single, top range $35.01 to $40. Married couple, top range $50 to $55. Figures supplied by Guaranteed Income and Tax Credit Branch, Ministry of Revenue, Ontario.

(29) Consumer Survey.

(30) See Chapter 4.

LIST OF TABLES

Chapter 7

Retirement Income in Ontario from Employment Pensions and Other Formal Arrangements

EMPLOYMENT PENSION PLANS

Nature and Size

Pension plans are arrangements made by employers to provide retirement income for employees. Pension plans vary greatly in design to meet the needs of various enterprises. They must conform, however, to the requirements of income tax authorities and also to those of provincial or federal regulatory authorities.(1) Pension or retirement plans are almost invariably registered with the income tax authorities in order to obtain tax deductions for contributions of employers and employees and to avoid tax on the income of the pension fund.

Income tax guidelines require that the primary purpose of a pension plan must be to provide pensions to employees in the form of life annuities.(2) The plan must be a definite arrangement established as a continuing policy by an employer or group of employers or by a union in conjunction with such employers. No law or rule requires anyone to establish a plan - or having introduced a pension plan, to continue it. While the plan is in existence, however, the employer must put monies aside to provide for the pensions promised as required by the Pension Benefits Act.

It is generally considered that an employer-employee relationship must exist before a retirement arrangement can be considered a pension plan. For tax purposes, a plan must be for employees; moreover, "employee" does not include a person who is self-employed, or a partner or proprietor.(3) In addition, the employer must be a contributor to the pension fund; in other words, a pension plan would not be accepted for registration if it were funded entirely by employees. The Ontario

Pension Benefits Act defines employee more widely as an individual who performs service in Ontario for a continuous period of not less than six months under a contract of service or of apprenticeship and includes an officer or director and an agent acting for a principal on a substantially full-time basis. Employer is defined in relation to an employee to mean any person or association from whom the employee receives his remuneration.

Revenue Canada places certain restrictions on the benefits that may be provided for "significant shareholders."(4)

There were 15,095 pension plans covering 4,193,244 employees(5) in Canada in 1978. Plans varied greatly in size - more than 85 per cent of the members were covered by 5 per cent of the pension plans. While 1.6 per cent of all plans in Canada in 1978 covered groups with more than 2,000 members, these plans covered 73.1 per cent of the membership. Obviously, care must be taken to distinguish factual data relating to plans as compared with members. For example it would not be useful to say that 50 per cent of plans have a particular feature if such plans only cover only 5 per cent of all members. In addition the plan characteristics of public sector plans and private sector plans are often dissimilar with the result that overall statistics tend to be misleading. The public sector plans include some with the largest membership in Canada although they are relatively few in number.

A pension plan may be contributory or non-contributory, that is, employees may be required to make contributions to the pension fund or the employer may make all the required contributions. Almost all members of public sector plans in Canada (99 per cent) are in contributory plans, while in the private sector (50 per cent) are in contributory plans. There is a tendency for large collectively bargained plans to be non-contributory.

In Ontario, 38.8 per cent of all members in pension plans are members of public sector plans and 99.5 per cent of these members are in contributory plans. Of the members of private sector plans in Ontario, 58.8 per cent are in non-contributory plans.

Participation in a pension plan varies with the type of industry. Although there are problems in classifying integrated companies by industry, Table 3 shows membership by industry based on Statistics Canada's classifications.

Employees may be required to become members of a pension plan as a condition of employment. Some plans provide for voluntary participation and others do not. Pension plans for public sector employees generally require full-time employees to join the plan. As will be seen from Table 4, membership is compulsory in 47.6 per cent of Ontario plans, covering 83 per cent of plan members.

Table 1

Pension Plans and Members, by Sector, Canada, 1978

	Public sector		Private sector		Both sectors	
	Plans	Members	Plans	Members	Plans	Members
Contributory	641	1,836,699	10,919	1,169,062	11,560	3,005,761
Non-contributory	20	17,815	3,515	1,169,668	3,535	1,187,483
Total	661	1,854,514	14,434	2,338,730	15,095	4,193,244

Source Statistics Canada, Pension Plans in Canada, 1978, pp. 54-55.

Table 2
Pension Plans and Members by Sector, Ontario, 1978

	Public sector		Private sector		Both sectors	
	Plans	Members	Plans	Members	Plans	Members
Contributory	113	645,065	6,208	420,016	6,321	1,065,981
Non-contributory	6	2,949	2,338	599,965	2,344	602,914
Total	119	648,014	8,546	1,020,881	8,665	1,668,895

Source Statistics Canada, "Pension Plans in Ontario, January 1, 1978," unpublished.

Table 3
Number of Pension Plans and Membership by Industry, Ontario, 1978

Industry	Plans	Per cent	Members	Per cent
Agriculture	45	.5	793	-
Forestry	7	.1	152	-
Fishing and trapping				
Mining	121	1.4	40,148	2.4
Manufacturing				
Food and beverages	340	3.9	45,666	2.7
Tobacco products	11	.1	2,289	.1
Rubber industries	43	.5	17,247	1
Leather	35	.4	2,570	.2
Textile	99	1.1	6,244	.4
Knitting mills	25	.3	828	
Clothing	54	.6	7,417	.4
Wood	62	.7	2,376	.1
Furniture and fixtures	78	.9	5,216	.3
Paper and allied industries	143	1.7	33,884	2.0
Printing and publishing	280	3.2	28,207	1.7
Primary metals	128	1.5	53,857	3.2
Metal fabricating	571	6.6	47,983	2.9
Machinery	303	3.5	46,186	2.8
Transportation equipment	204	2.4	116,233	7.0
Electrical products	245	2.8	60,660	3.6
Non-metallic mineral products	133	1.5	15,822	.9
Petroleum and coal products	15	.2	12,936	.8
Chemical	287	3.3	37,267	2.2
Miscellaneous	261	3.0	17,090	1.0
Construction	505	5.8	78,191	4.7
Transportation and communication	451	5.2	143,544	8.6
Trade				
Wholesale	1,365	15.8	40,722	2.4
Retail	649	7.5	52,589	3.2
Finance, insurance, and real estate	645	7.4	92,148	5.5
Community business and personal service	1,503	17.3	304,505	18.2
Public administration and defence	57	.7	356,125	21.3
Total	8,665	100.0	1,668,895	100.0

Source Statistics Canada, "Pension Plans in Ontario, January 1, 1978," unpublished.

Table 4
Compulsory and Voluntary Plans and Membership, Ontario, 1978

	Plans		Members	
	Number	Per cent	Member	Per cent
Compulsory, both sexes	4,124	47.6	1,384,508	83
Voluntary, both sexes	4,294	49.6	254,845	15.3
Compulsory males, voluntary females	55	.6	13,387	.8
Compulsory females, voluntary males	4	-	116	-
Compulsory males, not eligible females	38	.4	637	-
Compulsory females, not eligbile males	4	-	364	-
Voluntary males, not eligible females	47	.5	1,445	.1
Voluntary females, not eligible males	2	-	2	-
Not eligible, both sexes(a)	97	1.1	13,592	.8
Total	8,665	100	1,668,895	100

a "Closed end" plans - new employees not eligible.

Source Statistics Canada, "Pension Plans in Ontario, January 1, 1978," unpublished.

Types of Plans Employment Plan

There are two basic types of pension plan, each reflecting a different philosophy about the nature of a pension. The first type, the defined contribution plan (money-purchase) is essentially a savings plan; the second and more common type, the defined benefit plan, provides a specific amount of pension. The defined contribution plan specifies the contribution to be made to the pension fund; the ultimate pension is whatever amount the contributions plus interest will provide at retirement. No specific amount of pension can be or is promised.

These obvious differences are reflected in the ways in which costs are determined. A defined contribution plan has a known cost related to salary and service, but the amount of benefit is unknown. Defined benefit plans have only an estimated cost, although the amount of future benefits related to salary and service is known. In the latter case, regular contributions must be calculated and put aside now to pay the promised pension benefits. For this purpose the employer requires the services of an actuary, who will recommend a contribution rate based on projections of various cost factors such as interest rates, salaries, employee turnover, and life expectancy.

A defined contribution or money-purchase plan is much less complex. Usually it requires the employee to pay for example, 5 per cent of wages or salary to the pension fund, and the employer undertakes to match the employee's contributions. At retirement the employee's pension is whatever annuity these contributions accumulated with interest will provide.

Since the present cost of a pension unit increases with age, there is an important difference in the way in which benefits are earned under the two types of plan. In a defined benefit plan the individual accrues a specific unit of pension each year as a plan member, at an annual cost ranging from very low at the youngest ages to very high just before retirement. The converse is true of a money-purchase plan: the fixed contribution rate produces a high rate of pension accrual at younger ages and a much lower rate in later years. A parallel difference is found in the way the two types of plan treat males as opposed to females. Because women live longer than men, it costs more to provide them with the same amount of pension; thus, a fixed contribution rate produces a lower rate of pension accrual for females than for males; conversely, a fixed benefit rate means a higher unit cost for women than for men.

With an appreciation of these basic differences, an employer will find that the choice of plan type has both cost and design implications according to the particular circumstances of the group. One consideration may be the relatively low cost of a defined benefit plan, in the short term at least, for a group that is predominantly young. Another factor, and a compelling one in collective bargaining, may be the desirability of linking pensions strictly to service and earnings, thereby maximizing benefits for those who will retire in the near future (without impairing those accruing to younger employees). Again, a defined benefit arrangement would be indicated, since the rate of pension for a year of service is not affected by individual age or sex. Where a money-purchase plan is selected, it may be assumed that other objectives are paramount: predictability of cost, equity in the year-to-year allocation of employer monies, and administrative simplicity. In practice, the defined benefit type is clearly more popular than the money-purchase alternative. As will be seen from Table 5, defined benefit plans cover 92.3 per cent of all plan members in Ontario, compared to 6.3 per cent for money-purchase plans (including profit sharing).

Despite their obvious popularity, defined benefit plans are also more vulnerable to criticism: from the employer's standpoint because costs are less readily controlled, and from the employee's point of view because their financing is not usually visible or well understood. If the plan is contributory, the employee's share of cost is known, but the employer's share often is simply described as the "balance" of cost. If employer contributions are disclosed in detail it still may not be clear to employees why, at a given time, they are lower than total employee contributions (for example) or why they are not allocated equally to individual employee "accounts." Some criticisms clearly arise from the fact that cost-benefit relationships in pension plans are inherently

complex; sometimes little effort is made to explain them. It is often true, however, that the employer - whose cost is variable while the employee's is fixed - enjoys substantial savings as a result of high investment yield, personnel turnover, or other developments more favourable than originally estimated. Furthermore, younger employees in a contributory plan actually pay the entire cost of their own accrued benefits up to a certain age, or more than the cost, depending on the present value of the benefit and the amount of required employee contributions. A "fair" overall division of cost may not be appreciated by the younger employee who, at the moment, is not only missing out on the distribution of the employer's money but may even be subsidizing the pensions of other employees.

These drawbacks may be overstated. Employer costs in a defined benefit plan are subject to fluctuation; in the long run they may be more acceptable in relation to payroll and to employee contributions than might appear from a one-time examination. Employer savings can be and often are used for purposes of plan improvements or additional benefits to pensioners. On the other side of the comparison, a money-purchase plan usually does not in fact equate employee and employer costs, even where contributions are "matched." Until certain vesting conditions have been met, the employee has only a contingent right to the employer's portion. When a non-vested member terminates employment, the employer's cost for the plan as a whole is reduced in the following period by the amount of accumulated contributions and interest that is no longer allocated to that person. Matching of contributions, while entirely visible to members during their employment and after they have acquired full vesting, is not a reality to the non-vested employee - nor does it mean that total employer costs are the same as employee contributions. Unless full and immediate vesting is provided or employee terminations are infrequent, the stated rate of employer contribution is not a reliable indicator of the actual share of cost for the group as a whole.

Finally, it should be noted that the defined benefit approach is consistent with the notion that pensions are a form of insurance. Retirement is regarded as a contingency which, like death, can be provided for in advance through the pooling of individual risks and funding for an entire group. Money-purchase, on the other hand, is more closely related to individual saving for individual contingencies. It has no "insurance" characteristics until contributions are actually used to purchase an annuity; even then, the amount of pension will be determined in part on the basis of personal attributes: age, sex, and the level of interest which happens to prevail at the time of purchase.

Individual preferences for one plan type as opposed to another may be strongly and logically held by employees, and may change over time as personal circumstances change or plan improvements are implemented. In general it is impossible within an employed group to accommodate the wishes of participants for such divergent plan types. For present pur-

poses, therefore, defined benefit and money-purchase approaches, representing as they do two distinctly different strategies, must be regarded as mutually exclusive.

Defined Benefit Plans

Defined benefit plans are of three basic types. One is the flat benefit pension plan where the employer promises to pay a fixed amount, such as $10 per month for each year of service without reference to earnings. Flat benefit plans are commonly negotiated between management and labour unions. The level of benefit is usually fixed for the term of the collective agreement which may be from one to three years and is renegotiated when the collective agreement expires.

Less commonly the benefit is not proportionate to the employee's length of service but is a flat amount for all who retire with 20 years or some other minimum period of service. Flat benefit plans are generally non-contributory, with the entire cost met by the employer.

The second basic type is the career average pension plan in which the pension benefit per month is based on a percentage of the employee's earnings for each year of service. The formula might provide, for example, 2 per cent of earnings for each year of service. An employee working from January, 1960 to January, 1980 would have a pension credit equal to the total of 2 per cent of earnings in each year. Expressed in a more convenient way, it is equal to 2 per cent of average earnings from 1960 to 1979 inclusive multiplied by 20 years of service. If an employee worked 30 years for the same employer and had average monthly earnings of $500 the pension would be 2 per cent of $500 times 30, or $300 per month. Because the pension is based on earnings over all years of plan membership, the term "career average" is used to describe this formula.

Because of the high rate of inflation in recent years, many career average pension plans have been updated in a way that modifies their original intent. The usual method is to state that earnings for a recent year will be substituted for the average actually earned previously. If for instance an employee's earnings had risen from $5,000 in 1960 to $20,000 in 1979, an updating to the 1979 base year would obviously have a marked effect on the accrued pension.

Career average pension plans are commonly contributory - that is, the employee is required to contribute a percentage of salary or wage, often 3, 4, or 5 per cent towards the cost.

The third and most common type of plan is the final average pension plan. A final average formula bases the pension on a percentage of earnings in the most recent years prior to retirement. The period used is

usually from three to five years, but may range up to ten. For example, the benefit formula might be 2 per cent of average earnings during the five years prior to retirement. If an employee worked 30 years for the same employer and average earnings of the last five years were $1,000 per month, the pension would be 2 per cent of $1,000 times 30, or $600 per month.

In the following tables the term "final earnings" is sometimes distinguished from "average best earnings," meaning an average based on the best earnings years in a specified period prior to retirement (e.g., best five of the last ten years).

Formerly it was possible to have a plan with pension based on final pay at the time of retirement rather than the average of several years. Because such a plan may give undue weight to an adjustment in pay just before retirement, the Department of National Revenue now requires an average of at least three years to be used.

Popularity of the final average formula needs little explanation. It relates the pension to a person's earnings level in the later years of a career, normally the period of highest salary. It also minimizes the effect of inflation up to the time the actual benefit is determined. As compared with a career average formula, which gives equal weight to years of high and low earnings, a final average formula with the same percentage rate may be expected to produce roughly double the pension per year of service. The actual ratio will depend on the inflation rate and the range of earnings a person otherwise would have over the entire period of service.

From Table 5 we see that 99.5 per cent of all plan members in the public sector in Ontario are in defined benefit plans (final earnings, career average, flat benefit) and 95.7 per cent are in final earnings plans. In the private sector, 87.7 per cent of all plan members in Ontario are in defined benefit plans and 30.7 per cent are in final earnings plans. One-third of all members in the private sector are in flat benefit plans.

In order to show the incidence of various benefit rates in defined benefit plans, two tables are provided: Table 6, for earnings-related benefits and Table 7, for flat benefits (dollars per year of service).

Earnings-related plans reveal a clear preference for a 2 per cent formula, whether applied to a final earnings period or a career average. Overall, seven of every ten members of these plans are credited with at least 2 per cent of earnings per year of participation. In flat benefit plans the credit is $7 or more per year of participation in plans covering two-thirds of members.

Table 5
Pension Plans in Public and Private Sectors in Ontario, by Plan Type, 1978

	Public sector			Private sector			Both sectors		
	Plans	Members	Members	Plans	Members	Members	Plans	Members	Members
	(Numbers)		(Per cent)	(Numbers)		(Per cent)	(Numbers)		(Per cent)
Final earnings	41	620,494	95.7	1,345	314,111	30.8	1,386	934,605	56
Career average	27	22,667	3.5	2,614	241,647	23.7	2,641	264,314	15.8
Flat benefit	2	2,179	.3	830	340,571	33.4	832	342,750	20.5
Money-purchase	48	1,672	.2	3,380	93,446	9.1	3,428	95,118	5.7
Profit sharing	-	-	-	109	11,183	1.0	109	11,183	.6
Composite and other	1	1,002	.1	268	19,923	1.8	269	20,925	1.9
All plans	119	648,014		8,546	1,020,881		8,665	1,668,895	

Source Statistics Canada, "Pension Plans in Ontario, January 1, 1978," unpublished.

Table 6
Benefit Rates, in Earnings-Related, Defined Benefit Plans, Ontario, 1978

	Final and final average		Average best		Career average		Total	
Benefit rate	Members	Per cent	Members	Per cent	Members	Per cent	Members	Per cent
Less than 1%	305	.6	5,787	.7	18,976	7.2	25,068	2.1
1 - 1.49	6,143	13.0	73,362	8.2	20,089	7.6	99,594	8.3
1.5	9,763	20.7	36,455	4.1	35,055	13.3	81,273	6.8
1.51 - 1.99	6,636	14.1	31,474	3.5	37,872	14.3	75,982	6.3
2	13,383	28.4	684,802	77.2	120,153	45.5	818,338	68.3
Over 2	322	.7	1,242	.1	21,535	8.1	23,099	1.9
Other(a)	10,546	22.3	53,922	6.1	10,635	4.0	75,103	6.3
Total	47,098	100.0	887,044	100.0	264,315	100.0	1,198,457	100.0

a Includes those variable by sex.

Source Statistics Canada, "Pension Plans in Ontario, January 1, 1978," unpublished.

Table 7
Benefit Rate, Flat Benefit Pension Plans, Contributory and Non-contributory, Ontario, 1978

Benefit rate group(a)	Contributory		Non-contributory		Total	
	Members	Per cent	Members	Per cent	Members	Per cent
(Dollars)						
Under 2.49	24	.2	2,478	.8	2,502	.8
2.50 - 3.99	782	6.1	13,575	4.3	14,357	4.4
4.00 - 4.99	1,928	14.9	12,443	4	14,371	4.4
5.00 - 5.99	759	5.9	18,622	6	19,381	6
6.00 - 6.99	3,310	25.7	25,516	8.2	28,826	8.9
7.00 and over	5,081	39.4	207,082	66.2	212,163	65.2
Other(b)	1,015	7.9	32,970	10.5	33,985	10.4
Total	12,899	100.0	312,686	100.0	325,585	100.0

a Monthly pension credit per year of participation.

b Includes those variable by sex.

Source Statistics Canada, "Pension Plans in Ontario, January 1, 1978," unpublished.

Contributions

A full 99 per cent of plan members in the public sector in Canada (1978) and in Ontario (1978) are in contributory plans. In the private sector 41 per cent of plan members in Ontario are in contributory plans.

Tables 8 and 9 show the distribution of contributory and non-contributory plans by plan type.

Flat benefit plans are generally non-contributory. In other types of private sector plans in Ontario about 60 per cent of the members are required to contribute.

Table 8

Contributory and Non-contributory Plans by Plan Type, Canada, 1976 (Membership in Thousands)

	Contributory plans			Non-contributory plans			All plans	
	Plan	Members	Per cent members	Plan	Members	Per cent members	Plan	Members
		(Thousands)			(Thousands)			(Thousands)
Final earnings	1,158	1,946	67.5	719	247	24.2	1,877	2,193
Career average	4,481	582	20.2	490	101	9.9	4,971	683
Money-purchase(a)	5,938	143	5	1,472	60	5.9	7,410	203
Flat benefit	175	179	6.2	786	591	58	961	770
Composite and other	312	33	1.2	94	20	2	406	53
All plan types	12,064	2,883		3,561	1,019		15,625	3,902

a Includes profit sharing plans.

Source Statistics Canada and Laurence E. Coward.

Table 9
Distribution of Contributory and Non-contributory Plans by Sector and Plan Type, Ontario, 1978

	Public sector				Private sector			
	Contributory		Non-contributory		Contributory		Non-contributory	
	Members	Per cent	Members	Per cent	Members	Per cent	Members	Per cent
Final earnings	620,434	96.2	-	-	164,439	39.1	149,672	24.9
Career average	22,667	3.5	-	-	173,814	41.3	67,833	11.3
Flat benefit	-	-	2,179	73.9	12,914	3.1	327,657	54.6
Money-purchase	903	.14	769	26.1	51,550	12.2	41,896	7.0
Profit sharing	-	-	-	-	4,529	1.1	6,654	1.1
Composite and other	1,002	.15	-	-	13,670	3.2	6,253	1.0
Total	645,065	100	2,948	100	420,916	100	599,965	100

Source Statistics Canada, "Pension Plans in Ontario, 1978," unpublished.

Public sector plans generally provide for higher employee contribution rates than do private sector plans. Some 86 per cent of the members in public sector plans in Canada in 1978 were required to contribute more than 5 per cent of earnings compared with just 14 per cent of the members of private sector plans.(6) In Table 10 contribution rates are shown for all Ontario plans.

Table 10
Employee Contribution Rates to Pension Plans, Ontario, 1978

Contribution rate	Plans		Members	
(Per cent)	(Number)	(Per cent)	(Number)	(Per cent)
Less than 3	263	4.2	19,420	1.8
3 - 3.9	523	8.3	22,193	2.1
4 - 4.9	522	8.2	71,565	6.7
5 - 5.9	4,022	63.6	250,253	23.4
6 - 6.9	286	4.5	177,395	16.7
7	24	.4	324,478	30.4
7.1 - 9.9	21	.3	159,435	15.0
10	6	.1	26	
Dollar amounts	240	3.7	9,203	.8
Cents per hour	30	.5	4,754	.5
Other	372	5.9	24,983	2.4
Variable by sex	14	.2	2,278	.2
Total	6,323	100.0	1,065,983	100.0

Source Statistics Canada, "Pension Plans in Ontario, January 1, 1978," unpublished.

Total employee contributions in Canada in 1977 were slightly over $2.1 billion. Total employer contributions in Canada in 1977 were over $4 billion of which about $3 billion was for contributory plans and about $1 billion was for non-contributory plans.

Table 11
Contributions to Pension Plans in the Public Sector by Type of Plan, Ontario, 1978(a)

Type of plan	Contributory plans			Non-contributory plans		
	Employer	Employee	Total	Employer	Employee	Total
			(Thousands of dollars)			
Final average	1,561,091	769,836	2,330,927	377	7	384
Career average	31,951	21,424	53,375	-	-	-
Flat benefit	-	-	-	8,761	682	9,443
Money-purchase	398	384	782	3,172	304	3,476
Composite and other	3,915	1,319	5,234	-	-	-
All plans	1,597,355	792,963	2,390,318	12,310	993	13,303

Total employer and employee contributions: $2,403,621,000
Total employer contributions: $1,609,665,000 (67 per cent)
Total employee contributions: $793,956,000 (33 per cent)

a In the majority of cases contributions relate to calendar year ending December 31, 1977.

Source Statistics Canada, "Pension Plans in Ontario, January 1, 1978," unpublished.

Table 12
Contributions to Pension Plans in the Private Sector by Type of Plan, Ontario, 1978(a)

Type of plan	Contributions to contributory plans			Contributions to non-contributory plans		
	Employer	Employee	Total	Employer	Employee(b)	Total
	(Thousands of dollars)					
Final average	424,668	184,374	609,042	417,316	12,443	429,759
Career average	237,496	164,175	401,671	95,876	8,847	104,723
Flat benefit	8,259	2,015	10,274	312,114	5,607	317,721
Money-purchase	59,126	47,632	106,758	15,456	1,161	16,617
Composite and other	22,257	11,062	33,319	6,083	132	6,215
All plans	755,957	413,110	1,169,067	856,287	29,272	885,559

Total employer and employee contributions: $2,054,626,000
Total employer contributions: $1,612,244,000 (78 per cent)
Total employee contributions: $442,382,000 (22 per cent)

a In the majority of cases contributions relate to calendar year ending December 31, 1977.
b Presumably these are additional voluntary contributions.

Source Statistics Canada, "Pension Plans in Ontario, January 1, 1978," unpublished.

Thus, we can see that in Ontario there were more contributions to pension plans in the public sector than in the private sector and that two-thirds of the contributions in the public sector are made by the government as employer. In the private sector in Ontario, employees contributed 22 per cent of all contributions with the employer contributing the balance. In contributory plans in Ontario, employee contributions were 35 per cent of total contributions.

Funding Administrator

Under the Pension Benefits Act and as required by Revenue Canada, the funds of a pension plan must be administered by a government, a life insurance company, a corporate trustee, individual trustees, or a corporate pension society. In Ontario, as shown in Table 13, trusteed arrangements are found in plans covering 65.9 per cent of plan members. The other two significant funding agents are insurance companies (16.4 per cent) and governments (14 per cent).

Table 13

Funding Instrument by Type of Plan and Membership, Ontario, 1978

Type of plan	Insurance company	Trusteed	Canadian government annuities	Combination	Government consolidated revenue funds	Other
Final earnings	55,567	627,889	-	18,170	232,846	133
Career average	98,324	138,997	18	26,567	348	60
Flat benefit	37,035	289,567	38	16,110	-	-
Money-purchase	73,466	20,629	94	929	-	-
Profit sharing	982	10,201	-	-	-	-
Composite and other	7,933	12,103	-	889	-	-
Total	273,307	1,099,386	150	62,665	233,194	193
Per cent of total membership	16.4	65.9	-	3.8	14	-

Source Statistics Canada, "Pension Plans in Ontario, January 1, 1978," unpublished.

Retirement Benefits

Pensions or "retirement benefits" must take the form of an annuity, and not a lump sum on retirement.(7) The Pension Benefits Act defines pension benefit to mean "the annual, monthly, or other periodic amounts to which an employee will become entitled upon retirement."(8) Revenue Canada guidelines state explicitly that pensions must be in the form of life annuities.(9) Both measures reflect the need - as a matter of public policy as well as individual welfare - for regular income throughout the remainder of the pensioner's lifetime. The risk of spending all one's money before death is seen as unacceptable to the state, which would be required to support the pensioner.

Annuity contracts may be issued only by insurance companies, at a cost which varies from time to time, and among insurers. The employer may use accumulated funds to purchase a life annuity for the retiring employee from an insurance company. More commonly, however, the plan is self-insured - that is, pensions are paid directly from the fund in accordance with the plan, and the employer in effect assumes the risks of mortality and investment performance.

In either case, the person's total entitlement has - or can be assumed to have - a capital value, which is pooled with others' capital in order to cover all benefit payments for participants, regardless of how long an individual may live. Payments are made from a combination of the capital and interest earned. The proceeds are available to all contributors as a group, but not every contributor gets back all of his or her own capital. Those who live a long time get back more than those who do not. An insurance company uses mortality tables to estimate how long contributors and their spouses will live, and these estimates determine the price of an annuity - that is, the amount of capital required to provide for the expected number of pension payments. A similar calculation enters into the costing of pensions in a self-administered plan, although there may be no transfer of capital to an insurer when a member retires.(10)

Many plans provide the employee a choice of type of annuity, for instance, for life only, for life with a minimum of five or ten years, (a "guaranteed" period) or for the life of the retiree with a payment continuing to the spouse after the death of the retiree (a joint and survivor annuity). Guaranteed annuities mean that the periodic payments, usually monthly, are made for at least a minimum term whether or not the retired pensioner dies in the meantime. In a joint and survivor annuity, the pensioner receives a lower amount than under an ordinary life annuity, but on the death of the pensioner a specified monthly amount is paid to the surviving spouse. For a given capital amount the amount of the pension is highest in the life only form; it is lower in the form of a guaranteed annuity or a joint and survivor annuity. In Table 14 these differences are illustrated, using annuity values as of mid-1979.

Table 14
Monthly Annuity Purchased by a Single Premium of $25,000

	Single life annuity			Joint and survivor annuity(a)	
Age and sex	No guarantee	Guaranteed 5 years	Guaranteed 10 years	100 per cent to surviving spouse	50 per cent to surviving spouse
			(Dollars)		
Male					
60	242.65	238.44	230.02	202.54	220.79
65	266.42	259.16	244.81	214.66	237.76
70	300.00	286.46	261.35	231.74	261.49
Female					
60	224.59	222.77	218.64	209.39	216.72
65	244.81	241.23	233.27	224.18	234.04
70	273.78	266.42	250.76	245.29	258.75

a The male is assumed to be 3 years older than the female.

Source Laurence E. Coward, based on the rates quoted by a large competitive insurance company in mid-1979 for annuities purchased by funds from a registered plan.

Amount of Retirement Income

The amount of pension is determined in a defined benefit plan according to the plan formula; and in a money-purchase plan by annuity rates prevailing at the time of purchase. Revenue Canada sets maximum pension amounts for defined benefit plans; for money-purchase plans pensions are limited through restrictions on tax-deductible contributions each year. At present, tax-free maximum contributions to a pension plan each year total $3,500 each by employer and employee. At that level of $7,000 a year, the pension after 35 years would amount to about $80,000 a year.

For a registered defined benefit plan, the annual pension is maximum $1,715 times the number of years of pensionable service up to 35 years ($60,025) or, if less, the product of 2 per cent per year of pensionable service up to 35 years and the average of the best three consecutive years of remuneration.(11)

Whatever the plan formula, the amount of pension depends on pensionable service with the same employer. As we have seen in Chapter 4, the amount of pension income being received is small and the numbers receiving pension income are few. Table 15 shows the average pension income received in Canada in 1975.

Table 15
Number of Pensioners and Average Annual Pension from Employment Plans, by Income and Sex, Canada, 1976

	Male		Female		Both sexes	
Annual income	Number	Average pension	Number	Average pension	Number	Average pension
(Dollars)		(Dollars)		(Dollars)		(Dollars)
Under 1,000	3,024	487	3,349	417	6,373	450
1,000- 1,999	6,265	700	8,476	672	14,741	684
2,000- 2,999	22,581	797	24,102	807	46,683	802
3,000- 3,999	37,323	1,323	34,352	1,237	71,675	1,282
4,000- 4,999	45,006	1,716	30,343	1,591	75,349	1,666
5,000- 5,999	41,072	2,231	31,268	1,956	72,340	2,112
6,000- 7,999	74,538	3,088	42,281	2,168	116,819	2,755
8,000- 9,999	48,568	3,767	31,714	2,769	80,282	3,373
10,000-24,999	150,711	4,328	57,128	3,264	207,839	4,036
25,000 and over	28,444	7,612	4,700	5,043	33,144	7,246
Total	457,532	3,331	267,713	2,122	725,245	2,885

Source Statistics Canada, Pension Plans in Canada, 1978, p. 50.

The Financial Executive Institute survey of 2,716 pensioners retired from a selected group of large companies in Canada showed the 1977

average pension as $5,208 based on estimated average earnings of $17,063.(12)

Adjustments for Inflation

Escalation of benefits after retirement may be provided in the terms of the plan, usually with reference to an external measurement of prices such as the Consumer Price Index, or of wage and salary levels. Some plans limit the pension adjustment to a specific percentage in any one year or a maximum determined by some other formula. Table 16 shows the incidence of escalation provisions in Ontario.

Table 16
Provision for Escalation in Pension Plans by Sector, Ontario, 1978

	Public sector			Private sector		
	Plans	Members	Per cent members	Plans	Members	Per cent members
No provision	107	266,930	41.1	8,473	972,692	95.2
Consumer Price Index with yearly maximum of under 4 per cent	1	348	.1	45	41,668	4.1
4 per cent and over	3	215,956	33.3	6	2,781	.3
Wage index under 3 per cent	–	–	–	4	72	–
Other	8	164,780	25.4	20	3,670	.3
Total	119	648,014	100	8,548	1,020,883	100

Source Statistics Canada, "Pension Plans in Ontario, January 1, 1978," unpublished.

Thus, 41.1 per cent of public sector members and 95.2 per cent of private sector members in Ontario are in plans without automatic escalation of pension benefits. However many employers make "ad hoc" adjustments, that is, occasional increases to pensioners without amending the regular plan provisions.

Other Benefits

Benefits on Death After Retirement

Provisions may be payable in various forms as described above; and the form - whether nominal or one selected by the individual - will determine what portion of the pension, if any, will be payable after the pensioner dies. However, some plans provide an automatic survivor's pension in addition to the regular pension; in effect it is a type of

life insurance and as such does not involve an individual option with its attendant reduction in pension. Otherwise there may be a continuation of monthly payments for a guaranteed term, a monthly pension under a joint and survivor option, or a refund of the balance of contributions after deducting pensions already paid. Some plans make no provision for surivors. In general, these are non-contributory arrangements in which there are no employee contributions to be refunded. The prevalence of post-retirement death benefits is shown in Table 17.

Table 17
Benefits on Death After Retirement by Sector, Ontario, 1978

	Public sector			Private sector		
	Plans	Members	Per cent members	Plans	Members	Per cent members
No benefit	4	1,292	.2	928	259,374	25.4
Guaranteed term less						
than 60 months	-	-	-	26	3,669	-
60 months	40	10,691		2,990	335,483	-
61-119 months	1	47	-	174	2,930	-
120 months	29	3,225	-	3,555	123,747	-
121-240 months	-	-	-	22	111	-
Total guaranteed term	70	13,963	2.2	6,767	465,940	45.6
Employee contributions less pension paid	3	71,070	11.0	240	36,282	3.6
Employee and employer contributions less pension paid	-	-	-	56	11,668	1.1
Survivor pension	36	540,116	83.3	376	212,093	20.8
Option chosen	3	769	.1	133	11,747	1.1
Other	3	20,804	3.2	48	23,779	2.3
Total	119	648,014	100	8,548	1,020,883	100

Source Statistics Canada, "Pension Plans in Ontario, January 1, 1978," unpublished.

Thus, less than 1 per cent of plan members in the public sector in Ontario and 25.4 per cent of plan members in the private sector were in plans which provided no death benefit after retirement. Public sector members tend to receive a survivor pension and private sector members tend to receive a guaranteed annuity with five years being the most common guarantee period. Of members in public sector plans with a survivor pension, 85.5 per cent are in plans providing for a 50 per cent survivor pension. In the public sector in Ontario, 83.3 per cent of members are in plans providing a survivor pension compared to only 20.7 per cent of private sector members. In the private sector 43.2 per cent are in plans providing for a 50 per cent survivor pension.

Benefits on Death Before Retirement

In the event of death of a member while still employed, the plan may pay a surviving spouse a monthly pension - usually about half of the member's accrued pension - often subject to a minimum age or service requirement. More commonly, there is only a refund to the estate or designated beneficiary equal to the employee's own contributions - with or without interest - and in some cases a portion of the employer's contributions. The incidence of these provisions is shown in Table 18.

Table 18
Benefits on Death Before Retirement by Sector, Ontario, 1978

	Public sector			Private sector		
	Plans	Members	Per cent members	Plans	Members	Per cent members
No benefit	-	-	-	1,079	299,411	29.3
Refund of employee contributions	24	77,544	11.9	2,430	228,004	22.3
Refund of vested employer contributions	3	769	.1	873	70,713	6.9
Survivor pension	38	561,359	86.6	654	309,774	30.3
Refund of employee contributions and vested employer contributions	54	8,342	1.2	3,486	92,458	9.0
Other	-	-	-	26	20,523	2.0
Total	119	648,014	100	8,548	1,020,883	100

Source Statistics Canada, "Pension Plans in Ontario, January 1, 1978," unpublished.

We see that 86.6 per cent of members in the public sector in Ontario are in plans providing a survivor benefit upon death prior to retirement compared with 30.3 per cent in the private sector. In the private sector in Ontario 29.3 per cent of members are in plans without death benefits.

There is no requirement in the Pension Benefits Act or Income Tax Rules that interest be credited in the event of a refund of contributions. In practice, as shown in Table 22, most plan members are promised some rate of return on their contributions, usually below the anticipated yield on investments of the pension fund. In some cases the rate of interest credited is reviewed periodically and adjusted by amending the plan or notifying the members; occasionally the rate is linked to the current rate paid by banks or other savings institutions. At the low end of the scale are provisions which may have been intended as long-term guarantees - that is, interest rates which the plan could promise regardless of short-time fluctuations in investment earnings.

Disability Benefits

Where a disability pension is provided, it is applicable to cases of long-term incapacity to perform any regular work, or at least to hold any job with that employer. Benefits may be reduced by government disability pensions (CPP, Workmen's Compensation) but in some plans are payable in addition to any other benefits. The amount of benefit in most cases is based on the member's accrued pension, and is either the full amount without reduction on account of age, or is subject to actuarial adjustment.

Data in Table 19 are for disability provisions in pension plans, and do not indicate the availability of similar benefits under group insurance programs. The latter are often used as a substitute for disability pensions as such; or the two types of coverage may apply to the same group, with their benefits co-ordinated in some manner.

Table 19
Disability Benefits Provided by Pension Plans by Sector, Ontario, 1978

	Public sector			Private sector		
	Plans	Members	Per cent members	Plans	Members	Per cent members
Full accrued pension	25	522,711	80.6	685	285,601	27.9
Actuarially reduced pension	25	83,666	12.9	1,183	127,311	12.4
Flat amount per month	1	1,263	.1	18	6,019	.5
Other	6	22,443	3.4	323	180,043	17.6
None provided	62	17,931	2.7	6,338	421,849	41.3
Total	119	648,014	100	8,547	1,020,823	100

Source Statistics Canada, "Pension Plans in Ontario, January 1, 1978," unpublished data.

In public sector plans, 97.3 of members have disability benefits in the pension plan and 80.6 per cent receive a full accrued pension. In the private sector, 41.3 per cent of members have no disability benefits in the pension plan and 27.9 per cent receive a full accrued pension.

Vesting and Locking-In

The Pension Benefits Act requires that a member of a plan who has been a member of the plan for ten years or who has had continuous service with the employer for ten years and who has attained the age of 45 years is entitled to a deferred life annuity at normal retirement age upon termination of employment or membership in the plan.(13) This is known as the 45 and 10 vesting rule. There cannot be any later vesting,

but plans may provide for vesting at an earlier age or after a shorter period of service.

It should be noted that the Pension Benefits Act requires vesting and locking-in only in respect of benefits accrued from the "qualification date" - that is, the effective date of the act, January 1, 1965. Benefits for prior service are included if such benefits were created after the qualification date. For example, an improvement now of $2 in a flat rate benefit formula, applied to all service including years before 1965, would be fully vested under the 45 and 10 rule even if the plan provided no vesting for other pre-1965 benefits. Vesting provisions in plans governed by the act are analyzed in Table 20.

Table 20
Vesting on Termination of Employment by Sector, Ontario, 1978, - Plans Subject to Pension Legislation

	Public sector			Private sector		
	Plans	Members	Per cent members	Plans	Members	Per cent members
Immediate and full	33	110,285	22.5	1,173	56,488	5.5
Years of service						
Under 5	3	1,082		49	4,513	
5	4	3,833		251	44,091	
6 to 9	2	26		102	4,070	
10	30	89,236		2,093	390,106	
11 to 14	2	10		172	3,782	
15	4	22,102	-	540	49,237	
16-19	-	-	-	145	3,724	
20	4	2,565		485	30,658	
Over 20	-	-	-	25	743	
Total	49	118,854	24.2	3,862	530,924	52.1
Years of participation	16	244,012	49.7	1,337	98,179	9.6
Age	-	-	-	22	1,422	.1
Service and/or participation and/or age	1	694	.1	231	54,617	5.4
Other	3	4,587	.9	162	40,892	4.0
No vesting other than 45 and 10	10	12,158	2.5	1,685	236,440	23.2
Total	112	490,590	100	8,472	1,018,962	100

Source Statistics Canada, "Pension Plans in Ontario, January 1, 1978," unpublished.

While 2.5 per cent of members in the public sector and 23.2 per cent in the private sector in Ontario are members of plans with no vesting apart from the minimum 45 and 10 requirement, the statutory provision also modifies the effect of vesting provisions in many other plans.

It would ensure some vesting, for instance, for an employee who was aged 45 and had ten years of service but less than ten years' participation in the plan - if the latter condition was the regular plan provision. Note that the data in Table 20 refer to plan vesting otherwise provided; in fact the Pension Benefits Act requires inclusion of the 45 and 10 rule whether or not there are other vesting provisions, unless the "regular" provisions are equal or better for every employee.

Not only is there a legal requirement that a pension be paid at retirement for terminating employees who satisfy the vesting rule, but the Pension Benefits Act requires that employee contributions be locked-in. Thus an employee who terminates after ten years of service and at age 45 or later must leave his or her contributions in the pension fund. Just as a plan may provide for earlier vesting, it may provide for earlier locking-in. Under the act a plan may allow the employee to receive a cash payment of up to 25 per cent of the commuted value of the vested annuity.(14)

Members who terminate employment before satisfying any vesting conditions receive a refund of their own contributions - usually with interest, although the interest rate applied may be less than the interest rate earned by the pension fund. Sometimes the employee is given a choice of a refund of his or her own contributions or a deferred pension as accrued under the pension formula of the plan.

In non-contributory plans, no benefit is available to a member who terminates employment before meeting the vesting conditions in the plan.

Table 21 shows provisions in Ontario plans for disposition of employee contributions.

Table 21
Disposition of Employee Contributions on Termination of Service Prior to Retirement in Contributory Plans, Ontario, 1978

	Public sector			Private sector		
	Plans	Members	Per cent members	Plans	Members	Per cent members
Refund with forfeiture of vesting	74	633,416	98.2	3,397	269,277	64.0
Refund with retention of vesting	16	623	.1	1,584	48,072	11.4
Refund with no vesting	8	10,877	1.7	1,005	76,134	18.1
No refund	15	149	-	224	27,435	6.5
Total	113	645,065	100	6,210	420,918	100

Source Statistics Canada, "Pension Plans in Ontario, January 1, 1978," unpublished.

Thus, 99.9 per cent of members in the public sector in Ontario and 93.5 per cent in the private sector are entitled to a refund of contributions. Interestingly, 27,435 members in private sector plans are not eligible for refunds compared to 149 members in the public sector. There is no statutory requirement to refund employee contributions upon termination prior to vesting.

The Pay Research Bureau found the following interest rates paid on refunded contributions:

Table 22
Interest on Refunded Contributions, Canada

Interest on refunded contributions	Management/ professional	Office	Non-office
(Per cent)	(Per cent of employment)		
Under 3.0	.2	.8	.5
3.0 to 3.9	11.7	10.4	8.8
4.0 to 4.9	52.4	50.0	54.4
5.0 to 6.0	24.5	21.1	22.2
6.1 to 8.0	2.4	3.8	3.5
Variable rate	7.7	12.3	7.2
No interest paid	1.1	1.6	2.9
Rate unknown	.0	.0	.5

Source Pay Research Bureau, Employee Benefits and Conditions of Employment in Canada, 1978, p. 75.

MULTI-EMPLOYER PLANS

A multi-employer pension plan is one established by two or more employers in an industry or related trades for the benefit of their employees. Such plans typically exist in industries characterized by a large number of small competing employers using large numbers of skilled workers, who move frequently from employer to employer while remaining in the same trade union. The multi-employer appproach is suited for such industries as construction, in which it is often impracticable, because of the temporary nature of the employer-employee relationship, to maintain separate pension or insurance programs. In the case of a more permanent operation, a small machine shop for example, access to a multi-employer plan may be the only solution for the proprietor who wishes to provide pensions without assuming an undue obligation of cost and paper work. At present, multi-employer pension plans are operated for members of a wide variety of trade unions: plumbers, bricklayers, machinists, labourers, teamsters, typographical, iron, electrical, sheet metal workers, and others.(15) Portability is achieved, in that employees do not forfeit their pension credits when they move from one participating employer to another. Even greater portability is possible where reciprocal agreements are made among several multi-employer plans,

so that workers do not forfeit benefit rights by moving from the jurisdiction of one plan to that of another.

The Canadian Labour Congress originated the Canada-Wide Industrial Pension Plan (CWIPP) - a non-profit pooled plan, mainly for small groups (100 or fewer employees). The Board of Trustees has equal representation of labour and management. Benefit features are uniform except for the level of unit pension credited for each unit of service, and the amount of past service to be recognized, both of which are decided by union-management negotiations in each group. Contributions are from the employer only and are based on the age and service profile of employees in the group to be enrolled.

CWIPP guarantees full benefits in the case of group termination after ten years of enrolment. It provides full portability for employees moving from one CWIPP group to another and vesting after 18,000 contributory hours of employment. It has a membership of 31 participating groups with 1,800 employees in two provinces.(16)

Establishment of a multi-employer plan is usually the result of a negotiated agreement between a group of associated employers and a union or council of unions(17) representing employees in the trade or industry. Such an agreement may become binding on other employers with whom the union has or may later acquire bargaining rights but who are not initially members of the employers' negotiating group.

Most multi-employer plans are non-contributory, with employer contributions (usually in cents per hour) and member benefits based on the number of hours worked. Pensions are of the flat benefit type rather than earnings-related. Since contributions and benefits are negotiated on an industry-wide or geographic basis, there is no direct relationship between costs and benefits for a particular employer. In fact, one employer may in effect subsidize another, since differentials in such cost factors as age distribution of employees are not always reflected in contribution rates for different employers. Similarly, cost pooling may have the effect of spreading among all employers the cost of past service benefits, otherwise more onerous for some employers than for others. Management of the plan is the responsibility of a board of trustees, which may be composed of employer and employee representatives, employee representatives only, or (in theory at least) employer representatives only. Membership or service of an employee under the plan is not deemed to be terminated until such time as he is no longer employed by any of the employers of the group or a member of the union. Thus an employee may move from employer to employer within the group with complete continuity of membership, service, and entitlement.

The benefit formula generally provides a fixed monthly pension for each unit (e.g., 1,000 hours) of credited current service. The amount of pension is determined by the trustees on the advice of an actuary. In general, benefit improvements depend primarily on the ability and will-

ingness of the parties to increase the contribution rate. Benefit increases may also be possible if the plan experience is favourable - for example, if investment earnings are greater than anticipated. Such "gains" serve to enhance the solvency of the plan, since they cannot reduce the employers' cost.

Several characteristics of multi-employer plans not only distinguish them from other employment pension plans (often in a commendable way) but also present special problems for their administration and regulatory bodies. The aspects considered here are: delinquencies, vesting, portability, funding and solvency, and actuarial certification.

Delinquent Employers

Some degree of contribution delinquency is to be expected in most multi-employer plans. Because the majority of employers involved are small and lack depth of financial resources, the slightest reduction in demand for their services may give rise to difficulties in meeting their financial commitments, including payments due to the pension plan. In prolonged slack periods many participating employers may go out of business. If the plan is not to suffer a loss, the trustees therefore must watch for delinquencies and make every effort to collect contributions due. In practice, despite the widespread use of fines and grievance procedures, delinquency remains a matter of considerable concern to many administrations as well as to supervisory authorities. If the employer goes out of business it may be impossible to collect arrears of contributions; as a consequence there will be a loss of benefits by his own employees and, conceivably, by all plan members.

If delinquencies cannot be eliminated completely, a reduction in the actual losses suffered might be affected by:

a) requiring trustees to report delinquent employers to regulatory authorities;

b) enabling regulatory authorities to take action against delinquents;

c) providing in legislation that contributions payable are trust monies and are first charge on assets of an employer in event of cessation of operations or bankruptcy.

Vesting(18)

The vesting rule provided in Section 21(1) of the Pension Benefits Act is more readily applied to single-employer plans than to multi-employer arrangements. It refers to ten years of continuous service with an employer or ten years' membership in a plan. Under a multi-employer plan, it is common for a union member to work continuously for ten years but for a number of different employers, as in the construc-

tion industry. A literal interpretation of the act would deny such an employee mandatory vesting (if age 45) unless plan membership also totalled ten years.

Qualifications for plan membership also may serve to impair people's pension rights. Most plans of this type require that the person be a "member in good standing" of the union - that is, one who is not more than a certain period in arrears in payment of union dues. However, "good standing" can be lost by disciplinary action of the union, such as a period of suspension or expulsion. In that event a pension could be deprived of pension entitlement, or the ability to achieve entitlement, by virtue of constitutional rules of a union. Whatever redress the union member may have through the union's internal appeal procedures or in the courts, it must be a matter of concern that a disciplinary action can cause a break in continuous membership and so deprive the individual of pension credits already earned.

Continuity of service for vesting purposes is usually given a liberal meaning in multi-employer plans. In a single employer plan, it is easy to determine whether a participant has terminated; he or she is either still employed or not employed. Under a multi-employer plan it is not so simple. An employee in a mobile industry such as construction may experience steady employment for nine months and then not work for the next three months. If this three-month layoff constituted a termination of employment, and the employee did not have ten years of plan membership and was not vested, all accrued benefits would be lost, even if the worker were to be rehired by a participating employer. However, the typical multi-employer plan treats service as broken only if a member fails to earn a minimum number of pension credits in a certain period: e.g., one-half year's credit within three consecutive years.

Portability

Because employees in certain industries and trades are mobile not only within a particular area or province but also nationally, their pension needs can be met only if portability is assured through reciprocity among the several plans in which they may be involved. When it becomes necessary for employees to work outside the jurisdictional area of the local union of which they are members (the "home local") they can either apply for a "travel card," or transfer membership to the local union of their new work area. A travel card permits them to work within the jurisdictional area of a particular local without relinquishing membership in the home local. Without a reciprocal arrangement for pension rights, however, non-vested workers who transfer to a new local lose the benefits they have earned within the home local. Travel card employees moreover do not accrue benefits in the home local plan while working outside of its jurisdictional area, nor are they entitled to pension credits in the plan of the local in whose area they are working.

Where multi-employer plans are linked by reciprocal agreements, employees do not suffer a loss of benefits by transferring membership to another local or working with a travel card. The ideal would be a national plan for each industry or trade, as currently in effect for the elevator industry. However, it must be recognized that the number of employers involved in that industry is relatively small. In others, there is less likelihood that national plans will materialize; provincial plans are a more realistic possibility.

Funding and Solvency

Multi-employer plans, with their combination of fixed contributions and defined benefits, present special problems for regulatory agencies in applying the solvency standards established under the Pension Benefits Act. In the case of a defined benefit plan the employer is required to pay annually such amounts which, when added to any employee contributions, are sufficient to provide the promised benefits over time. The employer is also responsible for meeting any experience deficiency that may arise. In a money-purchase or profit sharing pension plan the employer is liable only for contributions at the rate stipulated in the plan; there is no liability for any failure of the invested funds to produce a specific level of pension. These requirements cannot both be applied to a single plan unless it contains distinct money-purchase and defined benefit components. For the solvency rules to be enforced in respect of multi-employer plans it has been necessary to interpret the regulation in a practical manner and, in some cases, to require that the plan provisions be modified.

First there is the question of who, in a multi-employer plan, has the funding responsibility which the legislation assigns to the employer. Apart from the potentially serious problem of delinquencies discussed above, it is plainly beyond the power of any one participating employer to control the plan's solvency. Hence, the regulatory agency must resort to the expedient of insisting that certain measures be taken by the trustees; the penalty for non-compliance, presumably, is deregistration of the plan. It follows that the obligation of each employer is treated as the equivalent of a defined contribution (money-purchase) commitment, although the plan as a whole is of the defined benefit type.

In the second place, the reality of a fixed contribution rate must be reconciled with the desirability (in most cases) of providing a defined benefit. When it becomes evident that the specified contribution rate is insufficient to support the plan benefits - and assuming that the contribution rate is not renegotiated for some time at least - solvency of the plan can be maintained only by means of a reduction in benefits. The regulatory authority must be satisfied that this remedy is available; the multi-employer plan, like a single-employer plan, must not be permitted to promise more than it is able to deliver.

A third problem of regulation is that of properly assessing actuarial estimates in the context of a number of companies, many of them operating on a small scale and likely to disappear altogether when there is a downturn in the market for their output. A multi-employer pension plan with a substantial liability for past service benefits is particularly vulnerable to cutbacks in employment; the special payments required to amortize the unfunded liability are not variable as current service costs are. A given level of benefit is tenable only so long as overall employment, and therefore contributions, remain at or above the level assumed for the purpose of calculating the benefit. A severe or prolonged recession in the trade or industry means that the fixed and variable plan costs together will begin to exceed the revenue available. The same will be true if one large or several small firms go out of business; their contributions are no longer flowing into the fund to support the special payments for past service which, in normal circumstances, would give no special cause for concern. Where a single-employer plan encounters a similar cost increase (per covered employee), the employer has an obligation to make up the deficiency. In a multi-employer plan there is no such recourse to the funds of the firm in which the problem has arisen. Similarly, a single-employer plan will be wound up if a bankruptcy or other shutdown occurs, and the benefits of workers in other companies will not be affected; while in a multi-employer plan, the economic difficulties of a few may affect the pension benefits of employees throughout the plan. Most serious are those instances where a prolonged decline in an entire industry precludes any significant or timely increase in the rate of employer contributions.

Since solvency is so heavily dependent on the knowledge and judgment of actuaries and regulatory bodies, it will not be helpful to rely on a single rule governing the formulation of employment and revenue assumptions in a multi-employer plan. Nevertheless, it is apparent to the Commission that multi-employer pensions call for special attention in the area of solvency, if only to ensure that the protection envisaged by the Pension Benefits Act is extended as far as possible to members of these plans as well as those in single-employer plans.

Actuarial Certification

Currently the form of certification provided by actuaries for multi-employer plans varies. Some actuaries provide certificates as though these were purely defined benefit plans and show the contribution rate required to provide these benefits which may be higher or lower than that actually in force under the negotiated agreement. Other actuaries take the view these are essentially money-purchase arrangements, since the contribution rate is clearly defined and is coupled with a clause allowing the benefit to vary; they certify only that the rate of contribution to the plan is in accord with the terms of the agreement.

Neither of these forms of certification is suitable. There is insufficient disclosure to enable the regulatory authorities and plan members to ascertain the true financial position of the plan.

REGISTERED RETIREMENT SAVINGS PLANS (RRSPs)

Description

Two decades after its introduction in 1957, the Registered Retirement Savings Plan (RRSP) has evolved into an important savings vehicle in Canada.(19) Initially the program was rather slow to take root prompting one researcher in the mid-1960s to observe that "a tax deduction scheme that attracts only 1.4 per cent of eligible taxpayers must be judged something less than a smashing success."(20) Since that time the program has been expanded and extended well beyond its initial limits and consequently has attracted increasing taxpayer participation. By 1976, the latest year for which data are available, 10.5 per cent of the over 12 million persons who filed income tax returns in Canada reported RRSP contributions, with a record level of over $2 billion. With annual accumulations of this magnitude the program has come to represent an important component of gross personal savings in Canada.

The RRSP was designed primarily to assist people with earnings but not involved in employment pension plans to create a fund for the purpose of providing retirement income. They were offered some of the tax advantages available to members of registered pension plans. At the same time, the opportunity to contribute to an RRSP was also given to those who were members of employment pension plans, although in somewhat lower amounts.

Registration of a retirement savings plan with Revenue Canada permits the holder to deduct contributions from gross income for tax purposes, and the income from investments of the RRSP is not taxed. Tax is paid, however, when the funds are withdrawn from the RRSP. Thus taxes are deferred during the period of accumulation, as they are in the case of a registered pension plan.

The Registered Retirement Savings Plan is a contract between an individual and an insurance company, trust company, or another institution authorized to issue investment contracts. Each plan must conform to Section 146 of the Income Tax Act, whose detailed provisions may be summarized as follows:

- They limit the investment of RRSP funds to "pension-type" investments in order to prevent taxpayers and their advisers from speculating with retirement income.

- They guard against the use of RRSPs to achieve tax and estate planning objectives rather than to provide a retirement income.

The present amount of contributions which are tax deductible is 20 per cent of earned income to a maximum of $5,500 per year for those who are not members of a pension plan. Where an employer contributes to a pension plan, the employee may deduct RRSP contributions up to 20 per cent of earned income, subject to a maximum of $3,500, less the amount of the employee's own contribution to the pension plan. In addition, a worker may make all or part of the permitted contribution for his or her spouse even though the spouse may have no earned income.(21)

All amounts withdrawn from RRSPs are subject to tax, but several options are available at retirement. Unless the RRSP holder withdraws all or part of the funds (which are then taxed as income in that year) the accumulated value must be used to provide a regular income, through an approved annuity contract or investment vehicle.

Until 1978 the proceeds of an RRSP had to be taken in the form of a life annuity purchased from a life insurance company and commencing before the contributor's 71st birthday. The annuity could have a guarantee period or be in a joint and survivor form. Two other options are now available. Under the first, the assets are converted into a "term certain" annuity with equal payments ceasing at age 90. Under the second, the assets are transferred into a Registered Retirement Income Fund (RRIF) out of which must be paid each year an amount equal to the value of the fund at the beginning of the year divided by the number of years from the annuitant's age to age 90. In any case the income payments must start not earlier than age 60 nor later than age 70.

By selecting the RRIF option the individual is not forced to give up control of the investments in his or her RRSP upon reaching age 71. The RRIF however does not offer complete flexibility; annual payments start at 5 per cent of the fund or less, which is probably well below the interest earned by the fund, then rise quite rapidly to a maximum when the annuitant is age 89 and then stop. If the annuitant dies before age 90 the remaining assets are available to the beneficiary or estate.

These matters and the permitted investments are described in detail in the taxation chapter.

Although each plan must conform to the Income Tax provisions, room exists for considerable variety within the prescribed limits. An insurance company RRSP may be associated with a life insurance policy with a cash surrender value, for instance, or it may involve the immediate purchase of a deferred life annuity. Other RRSPs may be common stock or mutual fund plans investing in the stock market, or mortgage and bond funds, or savings deposit plans. RRSPs may also be self-administered, with individuals selecting their investments from those permitted. Administrative charges vary in form and amounts. Some may be "front-end loaded" - that is, an amount deducted from the contribution. Such charges may result in a loss of capital if funds are withdrawn before interest earnings have covered the initial deduction.

A group RRSP may be established; a single fund is set up for the group, but is similar to an individual RRSP so far as each member is concerned.(22) Such an arrangement amounts to a collection of individual RRSP contracts under the general sponsorship of an employer or association. The employer, although not entitled to tax deductibility for group RRSP contributions as such, may arrange to pay employees certain amounts (bonuses, etc.) on condition that they immediately transfer these payments to an RRSP. In practice therefore, a group RRSP can be financed entirely by employer money, technically paid first to individual employees but in fact channeled directly into the plan.

Groups RRSPs are not subject to the rules and reporting requirements of the Pension Benefits Acts, although they resemble employment pension plans in many respects. By their nature they provide full and immediate vesting of employer contributions and are solvent at all times. A group RRSP in combination with a deferred profit sharing plan is sometimes considered by the employer preferable to a registered pension plan.

RRSPs have generated a large amount of new saving from people who do not belong to pension plans and also from many who do. They have, however, another important effect which may have been considered incidental when they were established. RRSPs form a very convenient depository for savings originally made in some other form; a substantial part of the assets accumulated in RRSPs undoubtedly consists of transfers from other sources. Such transfers may occur, for example, when a pension plan is wound up and the members do not want to have annuities (immediate or deferred) purchased for them from an insurance company. The Income Tax Act also allows tax-free transfers to RRSPs of certain payments received by employees or pensioners: a superannuation or pension benefit, a payment under the Old Age Security Act or a provincial supplement, a Canada/Quebec Pension Plan benefit, a retiring allowance, or money received from a deferred profit sharing plan.

Growth of RRSP Funds

Statistical data on RRSPs and RRSP contributors are provided in a paper prepared by Harry Weitz for the Commission and reproduced in Volume VIII. Some data have been used in the foregoing outline; statistics for contributors and participation are discussed in Chapter 8.

Increasing contribution levels and rising participation are reflected in a steadily growing flow into RRSP funds. What started out as a trickle of funds in the mid-1950s and early 1960s became a veritable flood by the early 1970s. In the first ten years of their existence, 1958 to 1967, gross contributions into RRSP funds amounted to about half a billion dollars ($547 million); ten years later the accumulated gross inflow had exceeded $9.6 billion.

In 1977 alone, contributions amounted to well over $2.3 billion, more than four times the amount contributed in the first ten years of the program.

Taxpayer participation in RRSPs appears to be responsive to the level of tax deferment allowable. As shown in Table 23, each upward adjustment in allowable contribution ceilings has brought increased contributions into the RRSP market. After a period of moderate year to year increases in gross cash inflows, the pattern was interrupted in 1965 by a sharp rise of some 42 per cent over the previous tax period. This acceleration clearly was the response to a 1965 amendment which increased the contribution ceiling from the lesser of 10 per cent of income or $1,500 for contributors to private pension plans and $2,500 for all others, to 20 per cent of income, but with dollar limits remaining unchanged. The next peak appears in 1972. In that year contributions limits were raised sharply to the lesser of 20 per cent of eligible income, or $2,500 for private plan contributors and $4,000 for others. At this point gross contributions more than doubled to over $645 million in 1972 from $319 million the previous year. In 1973, the second year in which these higher contribution levels applied, gross contributions to RRSPs rose by another 43 per cent and then fell back in 1975 to a growth rate of 23 per cent, but still amounted to well over $1.5 billion. The latest increase in allowable limits was made in 1976, raising the dollar level to $3,500 for contributing plan members and $5,500 for others. In that year taxpayers responded by increasing their input by some 39 per cent, for a one-year record of $2.115 billion. Although the contribution level continues to grow, and preliminary figures for the 1977 tax year indicate that another $2.355 billion were placed in RRSPs, the growth rate declined to 11 per cent. Any conclusion to be drawn from this apparent downward trend in growth rate would be very speculative and premature at this time, since a single observation cannot be construed as indicative of a trend.

The trend as shown in Table 23 represents only the gross inflow into RRSP accounts and not the net amount that remains for long-term accumulation. Obviously, if the inflow is responsive to tax stimulus, some portion of these tax-sheltered funds must be vulnerable to early withdrawal. Also, over two decades of operation, the program contains some element of maturing holdings that must be withdrawn to purchase annuities. We must ask therefore, how much of the more than $10 billion that has flowed into RRSP accounts still remains for long-term accumulation to provide pension income for their holders.

Comprehensive data related to total assets held in RRSP funds are not available, but some broad estimates can be made. Fairly complete data of net RRSP holdings by trust companies and mutual funds can be derived from recently published material.(23) The major information gaps are insurance company RRSP funds which, in practice, represent a relatively small proportion of total RRSP sales. The relative size of the insurance company activity in the RRSP program may be seen in unpub-

lished data from Revenue Canada, showing the number of new RRSP accounts that came into existence in the 1976 tax year. According to these data, of the nearly 705,000 new accounts in 1976, less than 180,000 were with insurance companies; in other words, they had about one-quarter of the new business in 1976. Data for these current funds as well as past accumulations are not available with one minor exception, the RRSP component of insurance company segregated funds designed primarily for the private pension industry. Of total segregated fund assets of well over $3.5 billion in 1977(24) only $200 million were RRSP allocations.

Table 23
Contributions to RRSP Funds in Canada, 1958-1977

	Annual contributions		Annual increase
	(Thousands of dollars)		(Per cent)
1958	19,004		-
1959	20,000(a)		5
1960	27,526		-
1961	34,322		25
1962	40,456		18
1963	46,456		15
1964	57,704		24
1965	81,997		42
1966	100,618		23
1967	118,864		18
1958-1967		546,947	
1968	142,618		20
1969	178,600		25
1970	225,200		26
1971	319,800		42
1972	645,100		100
1973	922,600		43
1974	1,243,700		35
1975	1,524,500		23
1976	2,115,500		39
1977	2,355,000(b)		11
1968-1977		9,672,618	
Total 1958-1977		10,291,565	

a Estimate
b Preliminary

Source Revenue Canada, Taxation Statistics, reports for taxation years 1958-1976; and preliminary data from Revenue Canada, Taxation.

Based on these data, it is estimated that by the end of 1977 assets held in RRSP funds, exclusive of those held by chartered banks and insurance companies (other than the limited segregated component) amounted to well over $6 billion. The actual amount undoubtedly is considerably higher, probably closer to $7 billion. On this basis, therefore, the actual flow of $10 billion into RRSPs has ended with a 30 to 35 per cent net cash-out. In this context, however, "cash-out" includes withdrawal to purchase an annuity; how much was removed in lump-sum amounts for other purposes is not known. In general, the cash-out rate is about what one would expect in a program where approximately 80 per cent of

participants indicate that their purchases were made for pension purposes, as disclosed in the Commission's survey. Assets remaining in RRSP funds represent in large part a substantial pool of savings for pension purposes.

DEFERRED PROFIT SHARING PLANS

Profit sharing plans are plans provided by employers whereby employees share in the profits of the enterprise. In some cases profit sharing takes the form of a periodic cash distribution. In others the payments are deferred, with the accumulated value payable on retirement or in other contingencies such as death, disability, permanent layoff, or voluntary termination. Deferred profit sharing may be substantially the same as an employment pension plan except for provisions governing the employer's contributions.

Income tax treatment differs according to type of plan. A direct cash distribution of profit to employees is taxable as wages or salaries and is a deductible business expense. Deferred profit sharing is found in three distinct forms - often identified by reference to the applicable tax provisions:

1. Profit sharing pension plans, that is registered pension plans where the amount of employer contributions is determined by profits, subject to a minimum annual payment. Many are in fact money-purchase plans, although some have a defined benefit component, e.g., for past service.

2. Deferred profit sharing plans (DPSPs) registered under Section 147 of the Income Tax Act. They are subject to certain restrictions (e.g., as to investments, vesting, amount of contributions) and enjoy some of the tax advantages of registered pension plans.

3. Employee profit sharing plans, defined in Section 144 of the Income Tax Act. These are not registered, and indeed have no special tax privileges applicable to their members.

The deferred profit sharing plan offers tax advantages to both employer and employee. Employer contributions in respect of any employee are subject to an overall maximum of $3,500 per year (or 20 per cent of the employee's salary if less) including contributions to any other plan. The act requires that a minimum contribution be made by the employer, usually $100 per employee, in any year in which profits are earned. The method of determining the employer's total contribution and the method of allocating it among employees may be determined by a formula or may be at the employer's discretion.

As in the case of registered pension plans the employer's contributions are deducted from the employer's income before tax and are not taxed as income of the employees. Further, the interest income and realized gains of the profit sharing fund are tax free if the fund is invested in qualified securities. In general any payments out of the fund to members are subject to tax. Employee contributions to a DPSP are however not tax deductible, and so are not taxable when withdrawn.

While a deferred profit sharing plan may be established with the object of providing for the employee's retirement, the benefit does not necessarily have to be taken in the form of a life annuity. Cash distributions at retirement or earlier are permitted and the benefit may be transferred to a Registered Retirement Savings Plan or an income averaging annuity.

In some plans the employee receives a distribution of shares in settlement of the rights under the plan. He then pays tax on the amount of allocations from the employer, from the investment income, and from realized capital gains; but he may defer paying tax on unrealized gains in the shares until he ultimately sells them.

The ability to take the benefit in the form of a lump sum or over a few years is a major difference between a deferred profit sharing plan and a registered pension plan. On the other hand, a DPSP cannot provide past service benefits, nor can it upgrade benefits by amendments in order to offset inflation.

Another important difference is that each allocation to an employee must vest within five years of the time of its allocation, regardless of the employee's age and total service; and in any case on retirement or disability. The DPSP vesting rule therefore is quite different from that for pension plans where benefits need not be vested until a member has ten years of service and has attained age 45.

For an Employees Profit Sharing Plan as defined in Section 144 of the Income Tax Act there are no registration requirements and no special tax concessions, except that employer contributions are a deductible business expense. While the trust itself is non-taxable, all investment income including capital gains and losses must be allocated to individual members and is treated as their income for tax purposes. The same applies to employer contributions and any amounts forfeited by non-vested members. Employee contributions are not deductible from income for tax purposes. On the other hand, such a plan offers the individual a tax-free payout as is the case with personal savings - to the extent that tax has already been paid on the income. The accumulated amount may be used to purchase an annuity, in which case only the interest portion of payments will be taxable. In addition, in contrast to various registered arrangements, the member benefits directly from certain offsetting tax features such as the dividend tax credit, interest deduction, and the lower tax rate on capital gains.

Statistics as to the coverage, contributions, and benefits of deferred profit sharing plans (DPSPs) are scarce, and are almost non-existent for non-registered types of profit sharing.

A survey published in March, 1977 by Hewitt Associates concerned 210 large corporations in Canada who responded, out of 1,800 who were invited to participate in a survey of capital accumulation plans.(25) Of those responding, approximately one-quarter reported some type of capital accumulation plan. Almost all the participants with capital accumulation plans also had pension plans.

Of the 58 plans reported 29 were not registered, including Employees Profit Sharing Plans meeting the requirements of Section 144 of the Income Tax Act. Fourteen were Registered Deferred Profit Sharing Plans, eight were group Registered Retirement Savings Plans, and seven were combinations of DPSPs and RRSPs. No information is available as to the total membership, contributions or assets of these plans.

Revenue Canada reports that 22,400 Deferred Profit Sharing Plans had been registered to the end of last year, but it is not known how many of these have been discontinued. In 1978, 1,003 new plans were registered. Many, it is believed, are "shareholder" plans with only one member, but the total membership is not known to the Department.

Employees Profit Sharing Plans do not have to be registered, but some employers notify the tax authorities if they operate such plans. Revenue Canada has received 140 notifications of Section 144 plans.

Tables 24 and 25 show separately the number and membership of registered profit sharing pension plans and DPSPs in selected years. Combining the figures shown for 1976, the latest year for which data for both types are available, it will be seen that the total number of plans was 3,397. Of these, 231 or 6.8 per cent were of the pension variety - that is, treated as pension plans for tax purposes.

Table 24
Number and Membership of Registered Profit Sharing Pension Plans, Canada, 1960-1976

	Annual total	
	Plans	Members
1960	211	23,616
1965	351	28,253
1970	310	21,374
1974	258	19,184
1976	231	20,092

Source Statistics Canada, Pension Plans in Canada, 1976, p. 37.

Table 25
Number of Deferred Profit Sharing Plans Registered under Section 147 of Income Tax Act, Canada, 1970-1978

	Annual total	Cumulative total
1970		948
1972	982	2,027
1974	3,780	8,573
1976	3,166	15,436
1978	2,918	21,579

Source Revenue Canada, Pension and Profit Sharing Plans Division.

The majority of Section 147 plans are for shareholders. Those covering employees tend to occur in small enterprises, as shown in Table 26.

Table 26
Deferred Profit Sharing Plans, by Membership Size, Canada, December 31, 1977

Type or range	Number of plans
Not known	991
Shareholders only	15,138
1 - 10 employees	2,077
11 - 50 employees	351
51 - 200 employees	71
201 - 500 employees	16
Over 500 employees	17

Source Revenue Canada, Pension and Profit Sharing Plans Division, unpublished data.

NOTES

(1) Plans under federal jurisdiction are regulated by the Federal Pension Benefits Standards Act.

(2) Revenue Canada Taxation, Information Circular 72-13R6, Section 6.

(3) Ibid., Section 8.

(4) Ibid., Section 8(d) which defines a significant shareholder as "one, who alone or in combination with a parent, spouse, or child own, controls, or has a beneficial interest, directly or indirectly, in shares that represent 10 per cent or more of the voting power attached to all shares of a company that is participating in the plan."

(5) There were 1,668,895 members in 8,665 plans registered in Ontario in 1978 with 648,014 members in the public sector and 1,020,881 members in the private sector.

(6) Statistics Canada, Pension Plans in Canada, 1978, Cat. 74-401, p. 38.

(7) This is a popular form of benefit in some countries, e.g., Japan.

(8) R.S.O. 1970, c. 113, s. 1(g).

(9) I.C. 72-13R6, s. 6(b).

(10) Explanation adapted from Canadian Life Insurance Association Briefs No. 1 and 94.

(11) This is the formula for benefits payable after September 1, 1976.

(12) Cited in Canada at the Pension Crossroads by Keith H. Cooper and Colin C. Mills, Financial Executives Research Foundation 1978.

(13) Section 21 (1) and (2) of the Pension Benefits Act provides:

"21.-(1) A pension plan filed for registration in accordance with Section 18 shall contractually provide that,

(a) a member of the plan who has been in the service of the employer for a continuous period of ten years, or has been a member of the plan for such period, whichever first occurs, and who has attained the age of forty-five years, is entitled, upon termination of his employment prior to his attaining retirement age, or upon termination of his membership in the plan prior to his attaining retirement age, to a deferred life annuity commencing at his normal retirement age equal to the pension benefits (except pension benefits provided by voluntary additional contributions) provided in respect of service as an employee in Ontario or in a designated province,

(i) under the terms of the plan in respect of service on or after the qualification date,

(ii) by an amendment to the terms of the plan made on or after the qualification date, or

(iii) by the creation of a new pension plan on or after the qualification date;

(b) both the pension benefits provided under the terms of the plan and the deferred life annuity prescribed by this section are not capable of assignment or alienation and do not confer upon any employee, personal representative or dependant, or any other person, any right or interest in the pension benefits or the deferred life annuity capable of being assigned or otherwise alienated; and

(c) upon termination of his employment or upon termination of his membership in the plan, a member of the plan who is entitled to a deferred life annuity under clause a is not entitled to withdraw any part of his contributions to or under the plan, except voluntary additional contributions, in respect of service in Ontario or in a designated province on or after the qualification date, and such contributions shall be applied under the terms of the plan toward the provision of the deferred life annuity required to be provided to the employee under clause a.

(2) Notwithstanding any provision of a pension plan,

(a) the deferred life annuity prescribed by subsection 1 is not capable of surrender or commutation during the lifetime of the employee and does not confer upon any employee, personal representative or dependant, or any other person, any right or interest in the deferred annuity capable of being surrendered or commuted during the lifetime of the employee;

(b) the pension benefits provided under the terms of the plan in respect of service after the qualification date are not, on or after the date of retirement of an employee, capable of surrender or commutation during his lifetime and do not confer upon any employee, personal representative or dependant, or any other person, any right or interest in such pension benefits capable of being surrendered or commuted during the lifetime of the employee; and

(c) an employee shall not withdraw any part of his contributions, not including voluntary additional contributions, paid under the plan in respect of service in Ontario or in a designated province on or after the qualification date, other than after,

(i) the termination of his employment, or

(ii) the termination or winding up of the plan, prior to his attaining retirement age and in circumstances where he is not entitled to a deferred life annuity under subsection 1."

(14) Section 21 (3) and (4) of the Pension Benefits Act provides:

"(3) Notwithstanding subsections 1 and 2, a pension plan may provide for,

(a) vesting or locking in at an earlier age than forty-five years or upon service or membership in the plan for less than ten years, or for both; and

(b) payment to an employee of an amount equal to the commuted value of the deferred life annuity or pension benefit to which the employee is entitled if the amount thereof payable to the employee at normal retirement age is less than $10 a month payable during his lifetime.

(4) Notwithstanding subsections 1 and 2, where a pension plan so provides, an employee may receive in partial discharge of his rights under the plan as a lump sum, upon or after termination of employment or membership in the plan prior to his attaining normal retirement age as defined by the plan, an amount that in total does not exceed 25 per cent of the commuted value of the deferred life annuity prescribed by subsection 1."

(15) Brief 209, Martin E. Segal Company, Ltd.

(16) United Steelworkers of America, Brief 239.

(17) Brief 229, Provincial Building and Construction Trades Council of Ontario - steps following negotiation of a collective agreement are described as follows:

"(a) Jointly with the assistance of skilled help a Memorandum of Agreement and Declaration of Trust is drafted.

(b) Each party to the agreement elects or appoints an equal number of Trustees who will administer the Pension Plans. The Unions usually assign their full time Representatives to act as Trustees and the Employers use people who are knowledgeable with money markets such as their Treasurers or Comptrollers as Trustees.

(c) The Trustees then sign the Memorandum of Agreement and Declaration of Trust after same has been approved by the respective memberships.

(d) The Trustees representing the parties then agree either to administer the Plan themselves or agree to hire an administrator who is an actuary or has actuaries on his staff to administer the Plan.

(e) All parties are informed of the decision, then all contributing employers bound by the Collective Agreement have to submit to the Adminstrator on a monthly basis the negotiated cents per hour for each of their employees covered by the Collective Agreement.

(f) The Trustees again agree after receiving submission from various Trust Companies what Trust Company they use as their depositing and investment vehicle.

(g) The Trustees decide how the money will be invested, this is performed on the advice of specialists in the field. Because the Trustees come from unionized Employers and from the Unions, any money invested in the mortgage market on major projects and developments there is a stipulation that these projects and developments be built union or the money is not forthcoming."

(18) Much of the discussion of vesting is adapted from Brief 209.

(19) S.C. 1957, c. 29, s. 17.

(20) Robert N. Schoeplein, "Taxpayer Participation Under the Registered Retirement Savings Program," Canadian Journal of Economics and Political Science, May, 1966, p. 229.

(21) S.C. 1974-1975, Chapter 26, Subsection 99(3), applicable to 1974 and subsequent taxation years, gave the taxpayer the option of making contributions to a plan for his spouse in lieu of contributions to his own plan.

(22) Section 4 of Information Circular No. 72-22R5 dated February 22, 1979 provides:

"4. Group Arrangements or Contracts

a) A group retirement savings plan arrangement may be implemented whereby a single trust is established to receive contributions to be used to provide a retirement income under individual plans of employees of an employer or members of an association or the spouses of such persons. For this purpose the employer or association must act as agent of the annuitant under each plan and of the contributing spouse, if applicable. The trust agreement must show the employer or association to be acting in this capacity and the application form signed by the annuitant must authorize the employer or association to so act as agent.

b) Under trusteed group arrangements the property held by the trust on behalf of individual registered retirement

savings plans must be identifiable in respect of each individual plan. This may be done, for example, by having individual bank, trust company or credit union deposit accounts in the name of each RRSP or by establishing, within the trust, one or more funds and allocating units of or interests in those funds to each registered retirement savings plan.

c) Similarly, employees of an employer, members of an association or the spouses of such persons may contract with an insurer for the payment of a retirement income to be funded through a group annuity, deposit administration or segregated fund contract in the name of the employer or association acting as duly authorized agent of those individuals. A copy of the plan text or a certificate meeting the requirements of the Uniform Life Insurance Acts must be made available to each annuitant participating in the group arrangement or contract.

d) Administrative costs of a group arrangement or contract when paid by an employer constitute a benefit to the participating employees, however, the value of such a benefit is no longer required to be reported on form T4 Supplementary provided receipts for same are not issued to the employees involved. It should be remembered that a non-profit organization would lose its exempt status under paragraph 149(1) (b) of the Act if it conferred a benefit on a member."

(23) Statistics Canada, Financial Institutions, Cat. 61-006, Quarterly.

(24) Statistics Canada, Trusteed Pension Plans Financial Statistics, 1977, Cat. 74-201, p. 59.

(25) This survey is of limited value for a detailed study of deferred profit sharing plans because:

- 1,800 companies were sent questionnaires, but the basis of selection is not stated;
- 210 returned answers; the report does not indicate to what extent this group can be considered a representative sample;
- of those replying, only 56 (27 per cent) had any form of capital accumulation plan.

LIST OF TABLES